

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

| | | | |
|--|--------------------------|--|----------------|
| Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input checked="" type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other | | Local Unit Name Bates Township | County Iron |
| Fiscal Year End 03/31/06 | Opinion Date 06/21/06 | Date Audit Report Submitted to State 08/10/06 | |

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

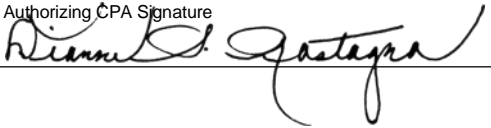
YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☒ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

| | | | |
|--|---|--|---------------------------|
| We have enclosed the following: | Enclosed | Not Required (enter a brief justification) | |
| Financial Statements | <input checked="" type="checkbox"/> | | |
| The letter of Comments and Recommendations | <input checked="" type="checkbox"/> | | |
| Other (Describe) | <input type="checkbox"/> | | |
| Certified Public Accountant (Firm Name) DS Rostagno CPA P.C. | | Telephone Number 906-265-1040 | |
| Street Address 101 West Maple Street | | City Iron River | State MI |
| | | Zip 49935 | |
| Authorizing CPA Signature  | Printed Name Dianne S. Rostagno, CPA | | License Number A245771 |

BATES TOWNSHIP

**Financial Report
With Supplemental Information
Prepared in Accordance with GASB 34**

March 31, 2006

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INDEPENDENT AUDITOR'S REPORT

DS Rostagno, CPA, P.C.

*101 West Maple Street, Iron River, MI 49935
Tel (906) 265-1040 Fax (906) 265-1042*

Board of Trustees
Bates Township
Iron River, Michigan 49935

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and aggregate remaining fund information of **Bates Township**, as of and for the fiscal year ended March 31, 2006, which collectively comprise the Township's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the Township's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Board of Trustees, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

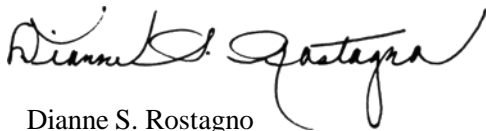
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of **Bates Township** at March 31, 2006, and the respective changes in financial position and cash flows thereof for the fiscal year ended, in conformity with generally accepted accounting principles in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 21, 2006 on our consideration of **Bates Township's** internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants.

The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis on pages 8 through 21 and the budgetary comparison information are not required parts of the basic financial statements but are supplemental information required by the *Governmental Accounting Standards Board* and by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of the inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise **Bates Township**'s basic financial statements. The combining and individual fund financial statements are presented for the purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, appearing to read "Dianne S. Rostagno". The signature is fluid and cursive, with the first name "Dianne" and last name "Rostagno" clearly distinguishable.

Dianne S. Rostagno
DS ROSTAGNO, CPA, P.C.

June 21, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

BATES TOWNSHIP

3070 EAST U.S. 2
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PUNNER FRANZENE, Treasurer

SANDRA DEMBOSKI, Trustee
ALLAN WODZINSKI, Trustee

The management of **Bates Township** provides this narrative overview and analysis of the financial activities of **Bates Township** for the fiscal year ended March 31, 2006. As readers, you are encouraged to read this discussion and analysis in conjunction with the Township's financial statement information included in this report.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Township's basic financial statements. The financial section of this report includes management's discussion and analysis, the basic financial statements, and required supplementary information. The basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements

The government-wide financial statements are designed to provide readers with a broad overview of the Township's finances, in a manner similar to a private-sector business.

The Statement of Net Assets presents information on all of the Township's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Township is improving or deteriorating.

The Statement of Activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Both of the government-wide financial statements distinguish functions of the Township that are mainly supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their cost through user fees and charges (business-type activities). The governmental activities of the Township include general government, legislative, public safety, public works, Township property, and culture and recreation. The business-type activities of the Township include Water and Sewer utility services.

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Fund Financial Statements

The Township, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. A fund is a grouping of related accounts used to maintain control over resources that have been segregated for specific activities or objectives. In the basic financial statements, the emphasis of the fund financial statements is on major funds. All of the funds of the Township can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental Funds

Governmental Funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. This information may be useful in evaluating the Township's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. In order to provide the reader with information to better understand the long-term impact of the government's near-term financing decisions, a reconciliation between the government-wide financial statements is included as part of the basic financial statements.

The Township maintains three governmental funds. Information is presented separately in the governmental fund balance sheet and governmental fund statement of revenues, expenditures, and changes in fund balance for the general and road repair funds, both of which are considered major funds. The Liquor Law Enforcement Fund is a non-major governmental fund.

Individual fund data for each fund is presented separately in the "Other Supplementary Information" section of this report.

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Governmental Funds (Continued)

The Township adopts an annual budget for its general and other governmental funds. To demonstrate compliance with this budget, a budgetary comparison statement has been provided for the general and other major governmental funds, and is included in the "Required Supplementary Information" section of this document.

Proprietary Funds

Proprietary Funds provide services for which the Township charges customers a fee. The Township has only one type of proprietary fund - enterprise funds. The enterprise funds of the Township are used to report the same functions as the business-type activities in the government-wide financial statements. The Water and Sewer Utility Funds are presented separately in both the government-wide financial statements and the fund financial statements and are both considered major funds. Enterprise funds are used to account for operations very similar to business enterprises, where the intent of the governing body is that the cost of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. The fiduciary fund for the Township is the Tax Collection Fund. Fiduciary funds are not included in the government-wide financial statements because the resources of those funds are not available to support the Township's own programs. This fund is presented separately in the fund financial statements section of the basic financial statements.

Notes to the Financial Statements

Notes to the financial statements are included in the basic financial statements, and provide additional information that is essential for a full understanding of the data provided in the government-wide and the fund financial statements.

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Supplementary Information

Required supplementary information follows the basic financial statements, and includes budgetary comparison schedules for the General Fund and the Township's major special revenue funds as presented in the governmental fund financial statements.

A separate financial statement for the Township's non-major governmental funds is also included in the Other Supplementary Information section of this document.

Government-wide Financial Analysis

In time, net assets of a governmental entity may serve as a useful indicator of the government's financial position. In the case of the Township, assets exceeded liabilities by \$2,715,803 at March 31, 2006.

By far, the largest portion of the Township's net assets is its investment in capital assets (land, buildings, machinery, and equipment), less any outstanding debt related to acquiring the asset. These capital assets are used to provide services to citizens and are not available for future spending. The Township had \$1,490,000 in related outstanding debt at March 31, 2006; hence the Township reported \$2,275,574 in net assets invested in capital assets, net of related debt.

External restrictions of the Township's net assets represent resources subject to existing external obligations or programmatic control on future use. The remaining balance of unrestricted net assets of \$201,434 may be used to meet the Township's ongoing obligations to citizens and creditors.

Total net assets in excess of liabilities at March 31 for the governmental activities and business-type activities were \$347,377 and \$2,368,426, respectively.

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Government-wide Financial Analysis (Continued)

The following is a comparative summary of net assets at fiscal years ended March 31, 2006 and March 31, 2005:

| | March 31, 2006 | | |
|---|----------------------------|-----------------------------|---------------------|
| | Primary Government | | |
| | <u>Governmental</u> | <u>Business-type</u> | <u>Total</u> |
| | <u>Activities</u> | <u>Activities</u> | |
| <u>ASSETS</u> | | | |
| Current and other assets | \$ 232978 | \$ 233998 | \$ 466976 |
| Capital assets, net | <u>116846</u> | <u>3648728</u> | <u>3765574</u> |
| Total Assets | 349824 | 3882726 | 4232550 |
| <u>LIABILITIES</u> | | | |
| Long-term liabilities | \$ 0 | \$ 1440000 | \$ 1440000 |
| Other liabilities | <u>2447</u> | <u>74300</u> | <u>76747</u> |
| Total Liabilities | 2447 | 1514300 | 1516747 |
| <u>NET ASSETS</u> | | | |
| Invested in capital assets, net of related debt | \$ 116846 | \$ 2158728 | \$ 2275574 |
| Restricted | 29097 | 209698 | 238795 |
| Unrestricted | <u>201434</u> | <u>0</u> | <u>201434</u> |
| Total Net Assets | \$ 347377 | \$ 2368426 | \$ 2715803 |

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ALLAN WODZINSKI, Trustee

Government-wide Financial Analysis (Continued)

| | March 31, 2005 | | |
|--|----------------------------|-----------------------------|-------------------|
| | Primary Government | | |
| | Governmental Activities | Business-type Activities | Total |
| <u>ASSETS</u> | | | |
| Current and other assets | \$ 229669 | \$ 287947 | \$ 517616 |
| Capital assets, net | <u>114449</u> | <u>3848755</u> | <u>3963204</u> |
| Total Assets | 344118 | 4136702 | 4480820 |
| <u>LIABILITIES</u> | | | |
| Long-term liabilities | \$ 0 | \$ 1532000 | \$ 1532000 |
| Other liabilities | <u>2286</u> | <u>74011</u> | <u>76297</u> |
| Total Liabilities | 2286 | 1606011 | 1608297 |
| <u>NET ASSETS</u> | | | |
| Invested in capital assets, net of related debt | \$ 114449 | \$ 2272755 | \$ 2387204 |
| Restricted | 22037 | 257936 | 279973 |
| Unrestricted | <u>205346</u> | <u>0</u> | <u>205346</u> |
| Total Net Assets | \$ 341832 | \$ 2530691 | \$ 2872523 |

For governmental activities, net assets increased by \$5,545 during the fiscal year. For business-type activities, net assets decreased by \$162,265 during the fiscal year.

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ALLAN WODZINSKI, Trustee

Government-wide Financial Analysis (Continued)

The following represents the comparative changes in net assets for both governmental and business-type activities for fiscal years ended March 31, 2006 and March 31, 2005:

| | March 31, 2006 | | |
|--|---------------------------|--------------------------|------------------|
| | Primary Government | | |
| | Governmental | Business-type | Total |
| | <u>Activities</u> | <u>Activities</u> | |
| <u>REVENUES</u> | | | |
| <i>Program Revenues</i> | | | |
| Charges for Services | \$ 15363 | \$ 274858 | \$ 290221 |
| Operating grants/contributions | 4892 | | 4892 |
| <i>General Revenues</i> | | | |
| Property taxes | 133704 | | 133704 |
| Other taxes | 28621 | | 28621 |
| Unrestricted grants | 73529 | | 73529 |
| Other | <u>21327</u> | <u>9529</u> | <u>30856</u> |
| Total Revenues | 277436 | 284387 | 561823 |
| <u>EXPENSES</u> | | | |
| General government | \$ 81225 | \$ 0 | \$ 81225 |
| Legislative | 13490 | | 13490 |
| Township property | 31187 | | 31187 |
| Public safety | 19343 | | 19343 |
| Public works | 96208 | | 96208 |
| Culture and recreation | 21753 | | 21753 |
| Community promotion | 2346 | | 2346 |
| Depreciation | <u>6339</u> | <u>0</u> | <u>6339</u> |
| Total governmental expenses | \$ 271891 | \$ 0 | \$ 271891 |
| <u>BUSINESS-TYPE ACTIVITIES</u> | | | |
| Water | \$ 0 | \$ 318456 | \$ 318456 |
| Sewer | <u>0</u> | <u>128196</u> | <u>128196</u> |
| Total business-type activities | 0 | 446652 | 446652 |
| TOTAL EXPENSES | \$ 271891 | \$ 446652 | \$ 718543 |

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Government-wide Financial Analysis (Continued)

| March 31, 2006 | | | |
|---|------------------------------------|-------------------------------------|--------------------------|
| Primary Government | | | |
| | <u>Governmental Activities</u> | <u>Business-type Activities</u> | <u>Total</u> |
| Increase (Decrease) in net assets Before transfers | \$ 5545 | \$ (162265) | \$ (156720) |
| Transfers – net | 0 | 0 | 0 |
| Increase (Decrease) in Net Assets | 5545 | (162265) | (156720) |
| Net Assets, beginning of year | 341832 | 2530691 | 2872523 |
| Net Assets, end of year | \$ <u>347377</u> | \$ <u>2368426</u> | \$ <u>2715803</u> |

| March 31, 2005 | | | |
|--------------------------------|------------------------------------|-------------------------------------|------------------|
| Primary Government | | | |
| | <u>Governmental Activities</u> | <u>Business-type Activities</u> | <u>Total</u> |
| <u>REVENUES</u> | | | |
| <i>Program Revenues</i> | | | |
| Charges for Services | \$ 19625 | \$ 274013 | \$ 293638 |
| Operating grants/contributions | 11711 | | 11711 |
| <i>General Revenues</i> | | | |
| Property taxes | 127932 | | 127932 |
| Other taxes | 15009 | | 15009 |
| Unrestricted grants | 74133 | | 74133 |
| Other | <u>7274</u> | <u>6338</u> | <u>13612</u> |
| Total Revenues | \$ 255684 | \$ 280351 | \$ 536035 |

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Government-wide Financial Analysis (Continued)

| March 31, 2005 | | | |
|---|----------------------------|-----------------------------|--------------------------|
| Primary Government | | | |
| | Governmental Activities | Business-type Activities | Total |
| <u>EXPENSES</u> | | | |
| General government | \$ 79396 | \$ 0 | \$ 79396 |
| Legislative | 15676 | | 15676 |
| Township property | 30525 | | 30525 |
| Public safety | 19414 | | 19414 |
| Public works | 69484 | | 69484 |
| Culture and recreation | 30542 | | 30542 |
| Depreciation | <u>5885</u> | <u>0</u> | <u>5885</u> |
| Total governmental expenses | \$ 250922 | \$ 0 | \$ 250922 |
| <u>BUSINESS-TYPE ACTIVITIES</u> | | | |
| Water | 0 | 315451 | 315451 |
| Sewer | <u>0</u> | <u>130190</u> | <u>130190</u> |
| Total business-type activities | 0 | 445641 | 445641 |
| TOTAL EXPENSES | \$ 250922 | \$ 445641 | \$ 696563 |
| Increase (Decrease) in net assets before transfers | 4762 | (165290) | (160528) |
| Transfers – net | 0 | 0 | 0 |
| Increase (Decrease) in Net Assets | 4762 | (165290) | (160528) |
| Net Assets, beginning of year | 245165 | 2784660 | 3029825 |
| Cumulative effect of change in application of accounting principle | 91905 | (88679) | 3226 |
| Net Assets, end of year | \$ <u>341832</u> | \$ <u>2530691</u> | \$ <u>2872523</u> |

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Governmental Activities

Property taxes and other tax revenues comprise \$162,325 or approximately 59 percent of total governmental revenues.

The Township also collected \$15,363 for services provided. And, at fiscal year-end, the Township reported \$73,529 in grants and contributions not restricted for specific programs. This amount was due entirely to the State of Michigan's state sales tax distribution, and comprises approximately 27 percent of total governmental revenues.

The Township expended \$271,891 on governmental programs and services. Some of the largest expense categories were for general government, where \$81,225, or 30 percent of total governmental expenditures were reported. Public works expenditures were \$96,208 or 35 percent of total governmental expenditures. A total of \$31,187 was expended on the maintenance of Township property.

Business-type Activities

Business-type activities decreased the Township's net assets by \$162,265. Charges for services for the Water and Sewer activities for the year ended were \$190,156 and \$84,702, respectively. Total expenses for the Water and Sewer activities for the year ended were \$318,456 and \$128,196, respectively.

Financial Analysis of the Governmental Funds

As previously noted, the Township uses fund accounting to ensure and demonstrate compliance with finance-related requirements.

Governmental Funds

The focus of the Township's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. This information is useful in assessing the Township's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

BATES TOWNSHIP

3070 EAST U.S. 2
Iron River, MI 49935
(906) 265-2787

ERNEST J. SCHMIDT, Supervisor
(906) 265-5586

BARBARA MONCIVAIS, Clerk
(906) 265-3060

PUNNER FRANZENE, Treasurer

SANDRA DEMBOSKI, Trustee
ALLAN WODZINSKI, Trustee

Governmental Funds (Continued)

The Township's governmental funds reported combined ending fund balances of \$230,531 of which \$29,097 is reserved and the remaining \$201,434 is available for spending at the government's discretion.

The Township's primary governmental fund is its general fund. There are no reservations in the general fund's fund balance.

On the budgetary basis of accounting, the Township ended the fiscal year with revenues higher than both the original and final projections. Total expenditures in the General Fund were considerably higher than the original and the final projections. Expenditures in the Road Fund were slightly lower than projected. Because of this, at fiscal year-end, the fund balance in the General Fund was slightly lower than either the original or the final amended budget projections, with the Road Fund coming in slightly higher than projected..

Revenues – Budget vs Actual for Fiscal Year Ended March 31, 2006

| | Revenues Original Budget | Revenues Final Budget | Revenues Final Actual | Revenues Variance Actual vs Original Budget | Revenues Variance Actual vs Final Budget |
|---------------------|---|--------------------------------------|--------------------------------------|--|---|
| General Fund | \$ 214300 | \$ 214300 | \$ 239941 | \$ 25641 | \$ 25641 |
| Road Fund | 32700 | 32700 | 37110 | 4410 | 4410 |

Expenditures – Budget vs Actual for Fiscal Year Ended March 31, 2006

| | Expenditures Original Budget | Expenditures Final Budget | Expenditures Final Actual | Expenditures Variance Actual vs Original Budget | Expenditures Variance Actual vs Final Budget |
|---------------------|---|--|--|--|---|
| General Fund | \$ 213800 | \$ 213800 | \$ 243719 | \$ (29919) | \$ (29919) |
| Road Fund | 32700 | 32700 | 30092 | 2608 | 2608 |

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ALLAN WODZINSKI, Trustee

Governmental Funds (Continued)

General fund financial and budgetary highlights of the fiscal year include:

- * Property taxes, administration fees, and other taxes came in very close to budgetary projections.
- * State sales tax distributions exceeded the original and final amended budget, coming in at \$73,529, which is more than the budget estimates of \$ 60,000.
- * Expenditures in total for the general fund were \$243,719, which is more than the final amended budget of \$213,800 by \$29,919.. This was due to the fact that actual costs for many budget line items exceeded the amounts appropriated.

Major special revenue fund financial and budgetary highlights of the fiscal year include:

- * In the Road Fund, which is the only major special revenue fund, the Township received funds of \$4,892 under the Schools and Roads Act, which had not been budgeted.
- * Expenditures in the Road Fund for road repair were \$30,092, compared to the budgeted amount of \$32,700.

Proprietary Funds

The Township's proprietary fund provides the same type of information found in the government-wide financial statements, but in more detail.

Net assets of the Water Fund at year-end were \$1,484,678: of this amount \$1,388,601 of Township equity in the Water Fund was invested in capital assets, net of related debt, \$96,077 was restricted for utility service. The change in net assets was a loss of \$123,497.

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Proprietary Funds (Continued)

Net assets of the Sewer Fund at year-end were \$883,748. Of this amount, \$770,127 is invested in capital assets, net of related debt. The balance of \$113,621 is reserved for utility services. The change in net assets was a loss of \$38,768.

Capital Assets and Debt Administration

Capital Assets

The Township's investment in capital assets, net of accumulated depreciation, for its governmental and business-type activities as of March 31 were \$116,846 and \$3,648,728, respectively. The investment in capital assets includes land, buildings, improvements, infrastructure, machinery and equipment, and licensed vehicles.

Infrastructure assets represent \$6,548,450 or approximately 95 percent of the estimated original cost of total assets. The infrastructure is accounted for in the Water and Sewer Funds. There is no infrastructure attributed to the General Fund.

Major capital events during the current fiscal year included:

| | |
|-------------------------------------|----------|
| * Purchase Cub Cadet mower - | \$ 5,098 |
| * Boring under Bates/Amasa Road- | \$ 2,000 |
| * Panick Road watermain extension - | \$ 8,160 |

Long-term debt

As of March 31, the Township (including the enterprise funds) had total bonded debt outstanding of \$1,490,000. This debt is the result of bonds issued for the water supply system project, with a balance outstanding in the amount of \$1,280,000, and for refunding bonds for the sanitary sewage system with a balance of \$210,000. All of the Township's bonded debt represents bonds secured by specified revenue sources, (i.e., revenue bonds).

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Long-term debt (Continued)

State statutes limit the amount of general obligation debt a governmental entity may issue to 10 percent of its total assessed valuation. Since the Township has no general obligation debt, this is not currently a concern to the Township.

Other Economic Factors and Next Year's Budget

Economic Factors

Despite economic uncertainties facing local governments, the Township will continue to strive to provide good social and cultural conditions that support healthy families, and maintain a safe and clean community in which to live.

There are no significant plans or major priorities for the Township for the 2006-2007 fiscal year.

Requests for Information

This financial report is designed to provide a general overview of the Township's finances for all those with an interest in the Township's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to:

Township Supervisor
Bates Township
3070 East US-2
Iron River, Michigan 49935

BASIC FINANCIAL STATEMENTS

| |
|-----------------------|
| BATES TOWNSHIP |
|-----------------------|

STATEMENT OF NET ASSETS

MARCH 31, 2006

| | <u>Primary Government</u> | | |
|---|---------------------------|----------------------|-------------------------|
| | <u>Governmental</u> | <u>Business-type</u> | <u>Total</u> |
| <u>ASSETS</u> | <u>Activities</u> | <u>Activities</u> | <u>Reporting Entity</u> |
| <u>Current Assets</u> | | | |
| Cash and Investments (Note C) | \$ 125,519 | \$ 44,131 | \$ 169,650 |
| Receivables | | | |
| Taxes | 10,268 | - | 10,268 |
| Accounts Receivable | - | 42,169 | 42,169 |
| Due from External Parties | (67) | | (67) |
| Internal Balances | 97,258 | (97,258) | - |
| Total Current Assets | 232,978 | (10,958) | 222,020 |
| <u>Noncurrent Assets</u> | | | |
| Restricted Cash and Investments | - | 244,956 | 244,956 |
| Capital Assets, Net (Note H) | 116,846 | 3,648,728 | 3,765,574 |
| Total Noncurrent Assets | 116,846 | 3,893,684 | 4,010,530 |
| TOTAL ASSETS | \$ 349,824 | \$ 3,882,726 | \$ 4,232,550 |
| <u>LIABILITIES</u> | | | |
| <u>Current Liabilities</u> | | | |
| Accounts Payable | - | 5,400 | 5,400 |
| Accrued Salaries and Benefits | 2,417 | | 2,417 |
| Deferred Revenue | 30 | 18900 | 18930 |
| Current Portion of Long-term Debt | - | 50,000 | 50,000 |
| Total Current Liabilities | 2,447 | 74,300 | 76,747 |
| <u>Noncurrent Liabilities</u> | | | |
| Bonds/Notes Payable (Note I) | - | 1,440,000 | 1,440,000 |
| Compensated Absences Payable | - | - | - |
| Long-term Employee Benefits Payable | - | - | - |
| Total Noncurrent Liabilities | - | 1,440,000 | 1,440,000 |
| TOTAL LIABILITIES | 2,447 | 1,514,300 | 1,516,747 |
| <u>NET ASSETS</u> | | | |
| Invested in Capital Assets, Net of Related Debt | 116,846 | 2,158,728 | 2,275,574 |
| Reserved for Road Repair | 28,445 | - | 28,445 |
| Reserved for Liquor Law Enforcement | 652 | - | 652 |
| Reserved for Utility Services | | 209,698 | 209,698 |
| Unreserved and Undesignated | 201,434 | - | 201,434 |
| TOTAL NET ASSETS | \$ 347,377 | \$ 2,368,426 | \$ 2,715,803 |

The notes to the financial statements are an integral part of this report.

| |
|-----------------------|
| BATES TOWNSHIP |
|-----------------------|

STATEMENT OF ACTIVITIES

YEAR ENDED MARCH 31, 2006

| Functions/Programs | <u>Expenses</u> | <u>Program Revenues</u> | | |
|-------------------------------------|-----------------|---------------------------------|---|---------------------------|
| | | <u>Charges for Services</u> | <u>Operating Grants & Contributions</u> | <u>Capital Grants</u> |
| Primary Government - | | | | |
| General government | \$ 81,225 | \$ 9,603 | \$ - | \$ - |
| Legislative | 13,490 | | | - |
| Township property | 31,187 | 5,375 | | - |
| Public safety | 19,343 | 385 | | - |
| Public works | 96,208 | | 4,892 | - |
| Culture and recreation | 21,753 | | | - |
| Community promotion | 2,346 | | | - |
| Depreciation (Unallocated) | 6,339 | - | - | - |
| Total Governmental Activities | \$ 271,891 | \$ 15,363 | \$ 4,892 | \$ - |
| <u>Business-type Activities</u> | | | | |
| Water Utility | 318,456 | 190,156 | | |
| Sewer Utility | 128,196 | 84,702 | | |
| Total Business-type Activities | \$ 446,652 | \$ 274,858 | | |

General Revenues:

Taxes:

 Property taxes levied for general operations

 Property taxes levied for road repair

 Other taxes and related fees

State Sales Tax Distribution

Interest and Investment Earnings

Other

Total General Revenues

Change in Net Assets

Net Assets - Beginning of year

Net Assets - End of year

| |
|-----------------------|
| BATES TOWNSHIP |
|-----------------------|

STATEMENT OF ACTIVITIES

YEAR ENDED MARCH 31, 2006

***Net (Expense) Revenue and Changes
in Net Assets***

| Governmental Activities | Business-type Activities | Total |
|------------------------------------|-------------------------------------|---------------------|
| \$ (71,622) | \$ - | \$ (71,622) |
| (13,490) | | (13,490) |
| (25,812) | | (25,812) |
| (18,958) | | (18,958) |
| (91,316) | | (91,316) |
| (21,753) | | (21,753) |
| (2,346) | | (2,346) |
| (6,339) | | (6,339) |
| <hr/> | <hr/> | <hr/> |
| \$ (251,636) | \$ - | \$ (251,636) |
| | (128,300) | (128,300) |
| | (43,494) | (43,494) |
| | <hr/> | <hr/> |
| | \$ (171,794) | \$ (171,794) |
| 101,486 | | 101,486 |
| 32,218 | | 32,218 |
| 28,621 | | |
| 73,529 | | 73,529 |
| 2,611 | 8,119 | 10,730 |
| 18,716 | 1,410 | 20,126 |
| <hr/> | <hr/> | <hr/> |
| 257,181 | 9,529 | 266,710 |
| <hr/> | <hr/> | <hr/> |
| 5,545 | (162,265) | (156,720) |
| 341,832 | 2,530,691 | 2,872,523 |
| <hr/> | <hr/> | <hr/> |
| \$ 347,377 | \$ 2,368,426 | \$ 2,715,803 |
| <hr/> | <hr/> | <hr/> |

The notes to the financial statements are an integral part of this report.

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| BATES TOWNSHIP |
|-----------------------|

BALANCE SHEET - GOVERNMENTAL FUNDS

MARCH 31, 2006

| | <u>General Fund</u> | <u>Road Fund</u> | <u>Nonmajor Governmental Funds</u> | <u>Total Governmental Funds</u> |
|---|--------------------------|-------------------------|--|---|
| <u>ASSETS</u> | | | | |
| Cash and Investments (Note C) | | | | |
| Unrestricted | \$ 96,422 | \$ 28,445 | \$ 652 | \$ 125,519 |
| Receivables: | | | | |
| Taxes | 10,268 | | | 10,268 |
| Accounts Receivable | | | | |
| Due from Other Funds | <u>97,258</u> | | | <u>97,258</u> |
| TOTAL ASSETS | <u>\$ 203,948</u> | <u>\$ 28,445</u> | <u>\$ 652</u> | <u>\$ 233,045</u> |
| <u>LIABILITIES AND FUND BALANCES</u> | | | | |
| <u>LIABILITIES</u> | | | | |
| Deposits | 30 | - | - | 30 |
| Accrued Taxes | 2,417 | | | 2,417 |
| Due to Other Funds | <u>67</u> | | | <u>67</u> |
| TOTAL LIABILITIES | 2,514 | - | - | 2,514 |
| <u>FUND BALANCES</u> | | | | |
| Reserved for Road Repair | - | 28,445 | - | 28,445 |
| Reserved for Liquor Law Enforcement | | | 652 | 652 |
| Unreserved and undesignated | <u>201,434</u> | | | <u>201,434</u> |
| TOTAL FUND BALANCES | 201,434 | 28,445 | 652 | 230,531 |
| TOTAL LIABILITIES AND FUND BALANCES | <u>\$ 203,948</u> | <u>\$ 28,445</u> | <u>\$ 652</u> | <u>\$ 233,045</u> |

The notes to the financial statements are an integral part of this report.

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| BATES TOWNSHIP |
|-----------------------|

GOVERNMENTAL FUNDS

RECONCILIATION OF BALANCE SHEET OF GOVERNMENTAL FUNDS TO NET ASSETS

MARCH 31, 2006

| | |
|---|-------------------|
| Fund Balances - Total Governmental Funds | \$ 230,531 |
|---|-------------------|

Amounts reported for governmental activities in the statement
of net assets are different because:

Capital assets used in governmental activities
are not financial resources and are not
reported in the funds.

| | |
|--------------------------------|-----------|
| The cost of capital assets is: | 288,047 |
| Accumulated depreciation is: | (171,201) |

Long term liabilities are not due and payable
in the current period and are not reported
in the funds:

| | |
|----------------------|---|
| Bonds Payable | - |
| Compensated Absences | - |

| | |
|---|---|
| Other long term assets not available to pay current period expenditures therefore deferred in the funds | - |
|---|---|

| | |
|--|---|
| Accrued interest is not included as a liability in governmental funds | - |
|--|---|

| | |
|---|--------------------------|
| Total Net Assets - Governmental Activities | <u>\$ 347,377</u> |
|---|--------------------------|

The notes to the financial statements are an integral part of this report.

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| BATES TOWNSHIP |
|-----------------------|

**STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCES –
GOVERNMENTAL FUNDS**

YEAR ENDED MARCH 31, 2006

| | <u>General Fund</u> | <u>Road Fund</u> | <u>Nonmajor Governmental Funds</u> | <u>Total Governmental Funds</u> |
|--|--------------------------------|-----------------------------|---|--|
| <u>Revenue</u> | | | | |
| General Property taxes | \$ 101,486 | \$ 32,218 | \$ - | \$ 133,704 |
| Other local taxes and fees | 28,621 | - | - | 28,621 |
| Use of money and property | 4,211 | - | - | 4,211 |
| Charges for services | 12,528 | - | - | 12,528 |
| Miscellaneous | 19,566 | - | - | 19,566 |
| Intergovernmental | 73,529 | 4,892 | 385 | 78,806 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Total Revenue | 239,941 | 37,110 | 385 | 277,436 |
| <u>Expenditures</u> | | | | |
| Current Operating: | | | | |
| General government | 81,225 | - | - | 81,225 |
| Legislative | 13,490 | - | - | 13,490 |
| Township property | 31,187 | - | - | 31,187 |
| Public safety | 19,000 | - | 343 | 19,343 |
| Public works | 66,116 | 30,092 | - | 96,208 |
| Culture and recreation | 21,753 | - | - | 21,753 |
| Community promotion | 2,346 | - | - | 2,346 |
| Capital outlay | 8,736 | - | - | 8,736 |
| Intergovernmental Payments | - | - | - | - |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Total Expenditures | 243,853 | 30,092 | 343 | 274,288 |
| Excess (Deficiency) of Revenues Over Expenditures | (3,912) | 7,018 | 42 | 3,148 |
| <u>Other Financing Sources (Uses)</u> | | | | |
| Operating transfers in | - | - | - | - |
| Operating transfers out | - | - | - | - |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Total Other Financing Sources(Uses) | - | - | - | - |
| Net Change in Fund Balances | (3,912) | 7,018 | 42 | 3,148 |
| Fund Balances -Beginning of year | 205,346 | 21,427 | 610 | 227,383 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Fund Balances -End of year | \$ 201,434 | \$ 28,445 | \$ 652 | \$ 230,531 |
| | <hr/> | <hr/> | <hr/> | <hr/> |

The notes to the financial statements are an integral part of this report.

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| BATES TOWNSHIP |
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GOVERNMENTAL FUNDS**RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES***YEAR ENDED MARCH 31, 2006***Net Change in Fund Balances - Total Governmental Funds** **\$ 3,148**

Amounts reported for governmental activities in the statement
of activities are different because:

Governmental funds report capital outlays as expenditures; in
the statement of activities, these costs are allocated over their
estimated useful lives as depreciation.

| | |
|----------------------|--------------|
| Depreciation Expense | (6,339) |
| Capital Outlay | <u>8,736</u> |

| | |
|-------|-------|
| Total | 2,397 |
|-------|-------|

Revenue reported in the statement of activities that does not provide
current financial resources and are not reported as revenue
in the governmental funds

-

Accrued interest is recorded in the statement of activities when
incurred; it is not reported in governmental funds until paid

-

Repayment of bond principal is an expenditure in the governmental
funds, but not in the statement of activities (where it reduces
long term debt)

-

Increases (Decreases) in compensated absences are reported as
expenditures when financial resources are used in the governmental
funds in accordance with GASB Interpretation No. 6

-

-

Change in Net Assets of Governmental Activities **\$ 5,545**

The notes to the financial statements are an integral part of this report.

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| BATES TOWNSHIP |
|-----------------------|

STATEMENT OF FUND NET ASSETS - ENTERPRISE FUNDS

MARCH 31, 2006

| | <u>Water Fund</u> | <u>Sewer Fund</u> | <u>Totals</u> |
|--|----------------------------|--------------------------|----------------------------|
| <u>ASSETS</u> | | | |
| <i>Current Assets:</i> | | | |
| Cash, unrestricted | \$ 5,827 | \$ 38,304 | \$ 44,131 |
| Accounts Receivable, net | 35,010 | 7,159 | 42,169 |
| Internal Balances | <u>(73,434)</u> | <u>(23,824)</u> | <u>(97,258)</u> |
| Total Current Assets | (32,597) | 21,639 | (10,958) |
| <i>Noncurrent Assets:</i> | | | |
| Restricted cash | 152,974 | 91,982 | 244,956 |
| Capital assets: | | | |
| Buildings | - | - | - |
| Equipment | 37,721 | 6,403 | 44,124 |
| Infrastructure | 3,853,407 | 2,695,043 | 6,548,450 |
| Less: | | | |
| Allowance for depreciation | <u>(1,222,527)</u> | <u>(1,721,319)</u> | <u>(2,943,846)</u> |
| Total capital assets, net | 2,668,601 | 980,127 | 3,648,728 |
| Total Noncurrent Assets | 2,821,575 | 1,072,109 | 3,893,684 |
| TOTAL ASSETS | \$ 2,788,978 | \$ 1,093,748 | \$ 3,882,726 |
| <u>LIABILITIES</u> | | | |
| <i>Current Liabilities:</i> | | | |
| Accounts payable | 5,400 | - | 5,400 |
| Current portion of long-term debt | 30,000 | 20,000 | 50,000 |
| Deferred revenues | <u>18,900</u> | <u>-</u> | <u>18,900</u> |
| Total Current Liabilities | 54,300 | 20,000 | 74,300 |
| Non-current Liabilities: | | | |
| Revenue bonds payable | <u>1,250,000</u> | <u>190,000</u> | <u>1,440,000</u> |
| Total Non-current Liabilities | 1,250,000 | 190,000 | 1,440,000 |
| TOTAL LIABILITIES | 1,304,300 | 210,000 | 1,514,300 |
| <u>NET ASSETS</u> | | | |
| Invested in capital assets, net of related debt | 1,388,601 | 770,127 | 2,158,728 |
| Reserved for Utility Services | 96,077 | 113,621 | 209,698 |
| Unreserved | <u>-</u> | <u>-</u> | <u>-</u> |
| TOTAL NET ASSETS | <u>\$ 1,484,678</u> | <u>\$ 883,748</u> | <u>\$ 2,368,426</u> |

The notes to the financial statements are an integral part of this report.

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| BATES TOWNSHIP |
|-----------------------|

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
ENTERPRISE FUNDS**

MARCH 31, 2006

| | Water Fund | Sewer Fund | Total Enterprise Funds |
|--|----------------------------|--------------------------|---------------------------------------|
| <u>Operating Revenues:</u> | | | |
| Charges for Services | \$ 190,156 | \$ 84,702 | \$ 274,858 |
| Miscellaneous | 600 | 810 | 1,410 |
| Total Operating Revenues | \$ 190,756 | \$ 85,512 | \$ 276,268 |
| <u>Operating Expenses:</u> | | | |
| Personal Services and Benefits | 38,797 | 35,901 | 74,698 |
| Contractual Services | 3,565 | - | 3,565 |
| Repairs and Maintenance | 6,977 | - | 6,977 |
| Other Supplies and Expenses | 31,754 | 8,895 | 40,649 |
| Administrative Expenses | 4,943 | 2,636 | 7,579 |
| Water Purchases | 12,172 | | 12,172 |
| Depreciation | 152,392 | 69,542 | 221,934 |
| Miscellaneous | | | - |
| Total Operating Expenses | \$ 250,600 | \$ 116,974 | \$ 367,574 |
| Operating Income (Loss) | (59,844) | (31,462) | (91,306) |
| Non-Operating Revenues (Expenses): | | | |
| Interest and Investment Revenue | 4,203 | 3,916 | 8,119 |
| Interest Expense | (67,856) | (11,222) | (79,078) |
| Total Non-Operating Revenues (Expenses) | (63,653) | (7,306) | (70,959) |
| Change in Net Assets | (123,497) | (38,768) | (162,265) |
| NET ASSETS, BEGINNING OF YEAR | 1,608,175 | 922,516 | 2,530,691 |
| NET ASSETS, END OF YEAR | <u>\$ 1,484,678</u> | <u>\$ 883,748</u> | <u>\$ 2,368,426</u> |

The notes to the financial statements are an integral part of this report.

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| BATES TOWNSHIP |
|-----------------------|

STATEMENT OF CASH FLOWS - ENTERPRISE FUNDS

FISCAL YEAR ENDED MARCH 31, 2006

| | <u>Water Fund</u> | <u>Sewer Fund</u> | <u>Total</u> |
|--|-------------------|-------------------|-------------------|
| CASH FLOWS FROM (USED BY) | | | |
| <u>OPERATING ACTIVITIES</u> | | | |
| Net cash received from fees and services | \$ 196,010 | \$ 87,037 | \$ 283,047 |
| Other operating revenues | 600 | 810 | 1,410 |
| Cash payments to employees for services | (40,649) | (18,218) | (58,867) |
| Cash payments to goods and services | (59,901) | (29,214) | (89,115) |
| Other operating expenses | - | - | - |
| | <hr/> | <hr/> | <hr/> |
| NET CASH FROM OPERATING ACTIVITIES | 96,060 | 40,415 | 136,475 |
| <u>NON CAPITAL AND FINANCING ACTIVITIES</u> | | | |
| Increase (decrease) in due to other funds | 28,605 | (5,026) | 23,579 |
| (Increase) decrease in due from other funds | - | - | - |
| Net operating transfers in (out) | - | - | - |
| | <hr/> | <hr/> | <hr/> |
| NET CASH FROM NON CAPITAL AND FINANCING ACTIVITIES | 28,605 | (5,026) | 23,579 |
| <u>CAPITAL AND RELATED FINANCING ACTIVITIES</u> | | | |
| Acquisition and construction of capital assets | (20,917) | (991) | (21,908) |
| Principal payment on long-term bonds | (25,000) | (61,000) | (86,000) |
| Interest paid on long-term bonds | (67,856) | (14,590) | (82,446) |
| Interest and tax expense | - | - | - |
| Proceeds from borrowings | - | - | - |
| Contributed capital grants | - | - | - |
| | <hr/> | <hr/> | <hr/> |
| NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES | (113,773) | (76,581) | (190,354) |
| <u>INVESTING ACTIVITIES</u> | | | |
| Interest Income | 4,203 | 3,916 | 8,119 |
| | <hr/> | <hr/> | <hr/> |
| NET CASH FROM INVESTING ACTIVITIES | 4,203 | 3,916 | 8,119 |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 15,095 | (37,276) | (22,181) |
| Cash and Cash Equivalents, Beginning of Year | <hr/> 143,706 | <hr/> 167,562 | <hr/> 311,268 |
| Cash and Cash Equivalents, End of Year | \$ 158,801 | \$ 130,286 | \$ 289,087 |

The notes to the financial statements are an integral part of this report.

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**STATEMENT OF CASH FLOWS - ENTERPRISE FUNDS
(CONTINUED)**

FISCAL YEAR ENDED MARCH 31, 2006

**CASH FLOWS FROM OPERATING
ACTIVITIES**

| | | | |
|--|--------------------------------|--------------------------------|---------------------------------|
| Operating Income | \$ (59,844) | \$ (31,462) | \$ (91,306) |
| Adjustment to reconcile operating income to net cash provided by operating activities: | | | |
| . Depreciation | 152,392 | 69,542 | 221,934 |
| . Provision for uncollectible accounts | - | - | - |
| . Changes in assets and liabilities : | | | |
| (Increase) Decrease in accounts receivable | 5,854 | 2,335 | 8,189 |
| Increase (Decrease) in accounts payable | (2,342) | - | (2,342) |
| Increase (Decrease) in deferred revenue | - | - | - |
| Increase (Decrease) in customer deposits | - | - | - |
| | <hr/> | <hr/> | <hr/> |
| NET CASH FROM OPERATING ACTIVITIES | <u><u>\$ 96,060</u></u> | <u><u>\$ 40,415</u></u> | <u><u>\$ 136,475</u></u> |

The notes to the financial statements are an integral part of this report.

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FIDUCIARY FUND**STATEMENT OF FIDUCIARY NET ASSETS***MARCH 31, 2006*

| | <u>Agency Funds</u> |
|---------------------------------|-------------------------|
| <u>ASSETS</u> | |
| Cash and Cash Equivalents | <u>\$ 22,939</u> |
| TOTAL ASSETS | \$ 22,939 |
| <u>LIABILITIES</u> | |
| Due to Other Funds | (67) |
| Due to Other Governmental Units | <u>23,006</u> |
| TOTAL LIABILITIES | \$ 22,939 |
| <u>NET ASSETS</u> | |
| Unrestricted | <u>-</u> |
| TOTAL NET ASSETS | \$ - |

The notes to the financial statements are an integral part of this report.

NOTES TO THE FINANCIAL STATEMENTS

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NOTES TO THE FINANCIAL STATEMENTS

FISCAL YEAR ENDED MARCH 31, 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting methods and procedures adopted by **Bates Township**, Iron River, Michigan, conform to generally accepted accounting principles as applicable to governmental entities. The following is a summary of the more significant policies:

THE FINANCIAL REPORTING ENTITY

The Township was organized in 1885 and covers an area of approximately 80990 acres. The Township operates under an elected board of commissioners (5 people) and provides services to its approximately 966 residents in many areas including law enforcement, general administration and water and sewer services. In accordance with the provisions of GASB 14, certain other governmental organizations are not considered to be part of the Township entity for financial reporting purposes. The criteria established by GASB 14 for determining the various governmental organizations to be included in the reporting entity's financial statements include separation of electing governing body and legal status, and fiscal independence.

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**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

FISCAL YEAR ENDED MARCH 31, 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

THE FINANCIAL REPORTING ENTITY (Continued)

On this basis, the financial statements of certain other governmental organizations are not included in the financial statements of the Township as discretely presented component units.

BLENDED COMPONENT UNITS

A blended component unit is a legally separate entity from the local unit, but it is so intertwined with the unit that it is, in substance, the same as the local governmental unit.

A basic strategy of GASB 14 is to present financial information for component units separately from the financial information for the primary government. This is achieved through the discrete presentation method. However, in the case of blended component units, GASB believes that it would be more appropriate to use the blending method to incorporate the financial information of a component unit into the reporting entity's financial statements.

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**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

FISCAL YEAR ENDED MARCH 31, 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BLENDED COMPONENT UNITS (Continued)

When the blending method is used, transactions and balances of a component unit are merged with similar transactions and balances of the primary government so that there is no way to identify which balances relate to the component unit and which relate to the primary government.

On this basis, there are no blended component units to be reported.

JOINT VENTURES

A joint venture is a legal entity or other organization that results from a contractual agreement and that is owned, operated, or governed by two or more participants as a separate and specific activity subject to joint control, in which the participants retain an ongoing financial interest or an ongoing financial responsibility.

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**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

FISCAL YEAR ENDED MARCH 31, 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

JOINT VENTURES (Continued)

An ongoing financial responsibility is determined as a participating government's obligation in some manner for debts or the joint venture's existence depends on continued funding by the participating government.

There are no joint ventures to be reported.

JOINTLY GOVERNED ORGANIZATIONS

A jointly governed organization is a multi-governmental arrangement that is governed by representatives from each of the governments that create the organization, but that is not a joint venture because the participants do not retain an ongoing financial interest or responsibility.

West Iron County Fire Board

The West Iron County Fire Board was organized in 1987 and provides fire protection for Iron River, Bates and Stambaugh Townships, and the City of Iron River, Iron County, Michigan.

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**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

FISCAL YEAR ENDED MARCH 31, 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

JOINTLY GOVERNED ORGANIZATIONS
(Continued)

West Iron County Fire Board (Continued)

The Board operates under an appointed Board of Commissioners (9 people) and provides fire protection services to more than 4500 residents.

The Board is funded by assessments from the participating municipalities.

Financial statements are available by writing to:

West Iron County Fire Board
P.O.Box 203
Iron River, Michigan 49935

West Iron County Volunteer Fire Department

The West Iron County Volunteer Fire Department was organized in 1987 and consists of volunteer fire fighters from the City of Iron River and the Townships of Bates, Iron River, and Stambaugh.

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**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

FISCAL YEAR ENDED MARCH 31, 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

JOINTLY GOVERNED ORGANIZATIONS
(Continued)

West Iron County Volunteer Fire Department
(Continued)

The purpose of the organization is to preserve and protect all life and property as declared by the West Iron County Fire Board.

The officers, elected by a plurality of votes of members present at the annual meeting consist of a Chief, Assistant Chief, First Captain, Second Captain, Training Officer, and Secretary/Treasurer.

Complete financial statements of the West Iron County Volunteer Fire Department can be obtained from:

West Iron County Volunteer Fire Department
640 9th Street
Iron River, Michigan 49935

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**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

FISCAL YEAR ENDED MARCH 31, 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

RELATED ORGANIZATIONS

A related organization is an organization for which a primary government is not financially accountable (because it does not impose will or have a financial benefit or burden relations) even though the primary government appoints a voting majority of the organization's governing board.

There are no related organizations to be reported.

BASIS OF PRESENTATION

The Township follows GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. GASB Statement No. 34 adds the following components to the financial statements:

Management's Discussion and Analysis

A narrative introduction and analytical overview of the government's financial activities. This analysis is similar to analysis the private sector provides in their annual reports.

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**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

FISCAL YEAR ENDED MARCH 31, 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (Continued)

Government-wide financial statements

These include financial statements prepared using full accrual accounting for all of the government's activities. This approach includes not just current assets and liabilities (such as cash and accounts payable) but also capital assets and long-term liabilities (such as buildings and infrastructure, including bridges and roads, and general obligation debt). Annual accounting also reports all of the revenues and costs of providing services each year, not just those received or paid in the current year or soon thereafter. The government-wide statements include the Statement of Net Assets and the Statement of Program Activities.

Statement of Net Assets

The Statement of Net Assets displays the financial position of the primary government (government and business-type activities).

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**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

FISCAL YEAR ENDED MARCH 31, 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (Continued)

Statement of Net Assets (Continued)

Governments report all capital assets, including infrastructure, in the government-wide Statement of Net Assets and report depreciation expenses - the cost of "using up" capital assets - in the Statement of Activities. The net assets of a government are broken down into three categories - 1) invested in capital assets, net of related debt; 2) restricted; and 3) unrestricted.

Statement of Program Activities

The statement of program activities reports expenses and revenues in a format that focuses on the cost of the government's functions. The expense of individual functions is compared to the revenues generated directly by the function (for instance, through user charges or intergovernmental grants).

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**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

FISCAL YEAR ENDED MARCH 31, 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

BASIS OF PRESENTATION (Continued)

Budgetary comparison schedules

Demonstrating compliance with the adopted budget is an important component of a government's accountability to the public.

Many citizens participate in the process of establishing the annual operating budgets of state and local governments, and have a keen interest in following the actual financial progress of their governments over the course of the year. The Township and many other governments revise their original budgets over the course of the year for a variety of reasons.

As required by accounting principles generally accepted in the United States of America, these financial statements present the primary government and its component units, entities for which the government is considered to be financially accountable.

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**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

FISCAL YEAR ENDED MARCH 31, 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

BASIS OF PRESENTATION

**GOVERNMENT-WIDE AND FUND FINANCIAL
STATEMENTS**

The basic financial statements include both government-wide (based on the Township as a whole) and fund financial statements. The reporting model focus is on both the Township as a whole and the fund financial statements, including the major individual funds of governmental and business-type categories, as well as the fiduciary funds (by category).

Both the government-wide and fund financial statements (within the basic financial statements) categorize primary activities as either governmental or business type. In the government-wide Statement of Net Assets, both the governmental and business-type activities columns (a) are presented on a consolidated basis by column, and (b) are reflected, on a full accrual, economic resource basis, which incorporates long-term assets and receivables as well as long-term debt and obligations.

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**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

FISCAL YEAR ENDED MARCH 31, 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

BASIS OF PRESENTATION (Continued)

**GOVERNMENT-WIDE AND FUND FINANCIAL
STATEMENTS (Continued)**

Both governmental-wide and fund financial statement presentations provide valuable information that can be analyzed and compared (between years and between governments) to enhance the usefulness of the financial information. The Township generally uses restricted assets first for expenses incurred for which both restricted and unrestricted assets are available. The Township may defer the use of restricted assets based on a review of the specific transaction.

The government-wide Statement of Activities reflects both the gross and net cost per functional category (public safety, public works, health and welfare, etc.) that are otherwise being supported by general government revenues (property, sales and use taxes, certain intergovernmental revenues, fines, permits and charges, etc.).

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**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

FISCAL YEAR ENDED MARCH 31, 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

BASIS OF PRESENTATION (Continued)

**GOVERNMENT-WIDE AND FUND FINANCIAL
STATEMENTS (Continued)**

The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants, and contributions.

The program revenues must be directly associated with the function (public safety, public works, health and welfare, etc.) or a business-type activity. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operation or capital requirement of a particular function or segment. Taxes and other items not properly included among program revenues are reported as general revenues.

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**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

FISCAL YEAR ENDED MARCH 31, 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

BASIS OF PRESENTATION (Continued)

**GOVERNMENT-WIDE AND FUND FINANCIAL
STATEMENTS (Continued)**

The Township does not allocate indirect expenses. The operating grants and contributions column includes operating-specific and discretionary (either operating or capital) grants while the capital grants and contributions column reflects capital-specific grants.

In the fund financial statements, financial transactions and accounts of the Township are organized in the basis of funds. The operation of each fund is considered to be an independent fiscal and separate accounting entity, with a self-balancing set of accounts recording cash and/or other financial resources together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations.

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**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

FISCAL YEAR ENDED MARCH 31, 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

BASIS OF PRESENTATION (Continued)

**GOVERNMENT-WIDE AND FUND FINANCIAL
STATEMENTS (Continued)**

The fund statements are presented on a current financial resource and modified accrual basis of accounting. This is the manner in which these funds are normally budgeted.

Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the government-wide statements' governmental activities column, a reconciliation is presented which briefly explains the adjustments necessary to reconcile the fund financial statements to the governmental activities column of the government-wide financial statements.

The Township's fiduciary funds are presented in the fund financial statements by type (pension, private purpose and agency).

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**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

FISCAL YEAR ENDED MARCH 31, 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (Continued)

**GOVERNMENT-WIDE AND FUND FINANCIAL
STATEMENTS (Continued)**

Since by definition these assets are being held for the benefit of a third party (other local governments, private parties, pension participants, etc.) and cannot be used to address activities or obligations of the government, these funds are not incorporated into the government-wide financial statements.

The following is a brief description of the specific funds used by the Township.

GOVERNMENTAL FUNDS

These funds are those through which most governmental functions typically are financed.

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| BATES TOWNSHIP |
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**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

FISCAL YEAR ENDED MARCH 31, 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (Continued)

GOVERNMENTAL FUNDS (Continued)

The acquisition, use, and balances of the Township's expendable financial resources and the related current liabilities, except those accounted for in the Proprietary Fund, are accounted for through the Governmental Funds.

These funds are as follows:

General Fund

This fund is used for all financial transactions not accounted for in another fund, including the general operating expenditures of the local unit.

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| BATES TOWNSHIP |
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**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

FISCAL YEAR ENDED MARCH 31, 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (Continued)

GOVERNMENTAL FUNDS

General Fund (Continued)

Revenues are derived primarily from property taxes and state and federal distributions, grants and other intergovernmental revenues. For reporting purposes, the General Fund is always considered to be a major fund.

Special Revenue Funds

These funds are used to account for specific governmental revenues requiring separate accounting because of legal or regulatory provisions or administrative action. The Township's *Liquor Law Enforcement* and *Road Repair Funds* are Special Revenue Funds.

The Road Repair Fund is considered a major fund for reporting purposes. The Liquor Law Enforcement Fund is a non-major fund.

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| BATES TOWNSHIP |
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**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

FISCAL YEAR ENDED MARCH 31, 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (Continued)

PROPRIETARY FUNDS

Enterprise Funds

These funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises----where the intent of the governing body is that the costs (expenses including depreciation) of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purpose.

The Township's *Water Fund* and *Sewer Fund* are Enterprise Funds.

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**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

FISCAL YEAR ENDED MARCH 31, 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (Continued)

FIDUCIARY FUNDS

Trust and Agency Funds are used to account for assets held by the Township in a trustee capacity for individuals, private organizations, other governmental units, and/or other funds. The Township's *Current Tax Collection Fund* is a Fiduciary Fund.

Accounting for Expendable Trust funds parallels accounting for governmental funds (modified accrual basis/approximate flow of current financial resources).

MEASUREMENT FOCUS

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using the current financial resources measurement focus.

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**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

FISCAL YEAR ENDED MARCH 31, 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (Continued)

MEASUREMENT FOCUS (Continued)

With this measurement focus, only current liabilities generally are included on the balance sheet in the funds statements. Long-term assets and long-term liabilities are included in the government-wide statements. Operating statements of the governmental funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

The government-wide statement of net assets and statement of activities, all proprietary funds, and private purpose trust funds and pension trust funds are accounted for on a flow of economic resources measurement focus.

With this measurement focus, all assets and all liabilities associated with the operation of these activities are either included on the statement of net assets or on the statement of fiduciary net assets.

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**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

FISCAL YEAR ENDED MARCH 31, 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (Continued)

MEASUREMENT FOCUS (Continued)

Proprietary fund-type operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets.

The statement of net assets, statement of activities, and financial statements of the Proprietary Funds and the Fiduciary Fund are presented on the accrual basis of accounting. Under this method of accounting, revenues are recognized when earned and expenses are recorded when liabilities are incurred without regard to receipt or disbursement of cash.

The fund financial statements of the General and Special Revenue funds are maintained and reported on the modified accrual basis of accounting using the current financial resources measurement focus.

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**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

FISCAL YEAR ENDED MARCH 31, 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (Continued)

MEASUREMENT FOCUS (Continued)

Under this method of accounting, revenues are recognized in the period in which they become measurable and available. With respect to real and personal property tax revenue and other local taxes, the term "available" is limited to collection within sixty days of the fiscal year-end. Levies made prior to the fiscal year-end but which are not available are deferred. Interest income is recorded as earned. Federal and State reimbursement-type grants revenue is considered to be measurable and available as revenue when related eligible expenditures are incurred.

Expenditures, other than accrued interest on long-term debt, are recorded when the fund liability is incurred.

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| BATES TOWNSHIP |
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**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

FISCAL YEAR ENDED MARCH 31, 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (Continued)

MEASUREMENT FOCUS (Continued)

The local government unit applies all GASB pronouncements as well as the FASB pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

ENCUMBRANCES

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriations, is employed for accountability purposes only.

It is the Township's policy to honor all unfilled contracts/orders at year-end, but the authority to complete these transactions is provided by the new year's budget appropriations, as unexpended appropriations of the current year lapse at year-end.

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| BATES TOWNSHIP |
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**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

FISCAL YEAR ENDED MARCH 31, 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (Continued)

CASH AND CASH EQUIVALENTS

The Township pools cash resources of its various funds to facilitate the management of cash. Cash applicable to a particular fund is readily identifiable. The balance in the pooled cash accounts is available to meet current operating requirements.

The Township classifies cash on hand, cash on deposit (including certificates of deposit), and highly liquid investments with an original maturity of ninety days or less when purchased as cash in its financial statements.

INVENTORIES

Inventories of supplies are expended as received.

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| BATES TOWNSHIP |
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**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

FISCAL YEAR ENDED MARCH 31, 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (Continued)

RECEIVABLES

Accounts which will be collected within sixty days of year-end are accrued as accounts receivable in the General and Special Revenue Funds. User charges for the Proprietary Funds are recorded as receivable when billed. On an annual basis the charges are reviewed for collectibility. Those deemed uncollectible are assigned to the tax roll.

INTEREST RECEIVABLE

Interest on certificates of deposit is recorded as revenue in the year the interest is earned and is available to pay liabilities of the current period.

DUE TO/FROM OTHER FUNDS

Transactions between funds that had not been paid or received as of fiscal year end have been recorded as inter-fund accounts receivable and payable in the financial statements.

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| BATES TOWNSHIP |
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**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

FISCAL YEAR ENDED MARCH 31, 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (Continued)

DUE TO/FROM OTHER FUNDS (Continued)

These inter-fund receivables and payables do not represent Board-approved loans between funds.

DEFERRED REVENUE

Deferred revenue represents amounts under the modified accrual basis of accounting for which asset recognition criteria have been met but for which revenue recognition criteria have not been met, whereby such amounts are measurable but not considered currently available resources.

FUND EQUITY

The unreserved fund balances for governmental funds represent the amount available for budgeting future operations. The reserved fund balances represent the amount that has been legally identified for specific purposes.

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| BATES TOWNSHIP |
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**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

FISCAL YEAR ENDED MARCH 31, 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (Continued)

FUND EQUITY (Continued)

Designated fund balances represent amounts earmarked by the Township for future expenditures.

Unreserved retained earnings represent net assets available for future operations or distribution. Reserved retained earnings represent net assets that have been legally identified for specific purposes. Designated retained earnings represent amounts earmarked by the Township for future expenditures.

BUDGETS AND BUDGETARY ACCOUNTING

The Township follows the State of Michigan Uniform Budgeting and Accounting Act for budgeting procedures. Budgets are adopted on a basis consistent with generally accepted accounting principles.

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| BATES TOWNSHIP |
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**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

FISCAL YEAR ENDED MARCH 31, 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (Continued)

**BUDGETS AND BUDGETARY ACCOUNTING
(Continued)**

Annual appropriated budgets are adopted for the general and special revenue funds. Unexpended appropriations lapse at fiscal year-end.

The following procedures are followed in establishing the budgetary data reflected in the financial statements:

1. Prior to March 31 of the preceding fiscal year, the Township prepares a budget for the next fiscal year beginning April 01. The operating budget includes proposed expenditures and the means of financing them.

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| BATES TOWNSHIP |
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**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

FISCAL YEAR ENDED MARCH 31, 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (Continued)

**BUDGETS AND BUDGETARY ACCOUNTING
(Continued)**

2. A meeting of the Township Board is then called for the purpose of adopting the proposed budget after sufficient public notice of the meeting has been given.
3. Prior to April 01, the budget is legally enacted through passage of a resolution by the members of the Township Board.

Once the budget is approved, it can be amended at the Function and Fund level only by approval of a majority of the members of the Township Board. Amendments are presented to the Board at their regular meetings. Each amendment must have Board approval.

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| BATES TOWNSHIP |
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**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

FISCAL YEAR ENDED MARCH 31, 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (Continued)

PROPERTY TAX

Property taxes are levied on December 31 and payable in two installments, July 01 and December 01. Property taxes are declared delinquent the following March 01, when they become a lien. The Township bills and collects its own property taxes and also collects taxes for the school districts, county, and library.

Collections for the schools, county, and library are accounted for in the Trust and Agency Fund. Township property tax revenues are recognized when levied to the extent they are receivable. The County of Iron purchases from the Township the delinquent real property taxes outstanding as of March 01 of each year.

The 2005 taxable valuation of the Township totaled \$32,717,351, on which ad valorem taxes levied consisted of 3.1021 mills for general operating purposes. An additional .9848 mill was levied for roads.

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| BATES TOWNSHIP |
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**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

FISCAL YEAR ENDED MARCH 31, 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (Continued)

NON-MONETARY TRANSACTIONS

The Single Audit Act of 1984, as amended, and OMB Circular A-133 defines federal financial assistance to include both monetary and non-monetary forms of assistance provided by or passed down from a federal agency, such as grants, contracts, loans, loan guarantees, property, etc.

CAPITAL ASSETS

Capital outlays are recorded as expenditures of the General, Special Revenue, and Capital Projects Funds (when applicable) and as assets in the governmental-wide statements to the extent the Township's capitalization threshold of \$ 500 is met.

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| BATES TOWNSHIP |
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**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

FISCAL YEAR ENDED MARCH 31, 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (Continued)

CAPITAL ASSETS (Continued)

Depreciation is recorded on general fixed assets on a government-wide basis using the straight-line method and the following estimated useful lives:

Buildings..... 20 - 30 years

Infrastructure..... 10 - 65 years

Furniture and Other

Equipment..... 5 - 20 years

To the extent the Township's capitalization threshold of \$500 is met, capital outlays of the Proprietary Funds are recorded as fixed assets and depreciated over their estimated useful lives on a straight-line basis on both the fund basis and the governmental-wide basis using the straight-line method and the following estimated useful lives:

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| BATES TOWNSHIP |
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**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

FISCAL YEAR ENDED MARCH 31, 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (Continued)

CAPITAL ASSETS (Continued)

Land Improvements..... 20 years

Equipment..... 5 - 20 years

All fixed assets are valued at historical cost or estimated historical cost if actual cost was not available. Donated fixed assets are valued at their estimated fair market value on the date donated.

Maintenance, repairs, and minor equipment are charged to operations when incurred. Expenses that materially change capacities or extend useful lives are capitalized. Upon sale or retirement of land, buildings, and equipment, the cost and related accumulated depreciation, if applicable, are eliminated from the respective accounts and any resulting gain or loss is included in the results of operations.

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| BATES TOWNSHIP |
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**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

FISCAL YEAR ENDED MARCH 31, 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (Continued)

COMPENSATED ABSENCES

The Township has no employees eligible to accrue vacation or sick pay.

POST-EMPLOYMENT BENEFITS

The Township offers no post-employment benefits.

USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

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| BATES TOWNSHIP |
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**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

FISCAL YEAR ENDED MARCH 31, 2006

NOTE B – INTER-FUND ACTIVITIES

INTER-FUND RECEIVABLES AND PAYABLES

Inter-fund receivables and payables do not represent inter-fund borrowings; instead, they represent actual amounts which are pending between funds at year-end due to the timing of cash flows. Generally, these amounts clear shortly after year-end when resources become available.

The amounts of the inter-fund receivables and payables as of March 31, 2006 were as follows:

| <u>Fund</u> | <u>Inter-fund Receivable</u> | <u>Inter-fund Payable</u> |
|--------------------|---|--------------------------------------|
| General | \$ 97258 | \$ (67) |
| Water | 0 | (73434) |
| Sewer | 0 | (23824) |
| Trust and Agency | <u>67</u> | <u>0</u> |
| Totals | \$ <u>97325</u> | \$ <u>97325</u> |

The General Fund loaned monies to the Water Fund; the March 31, 2006 balance was \$ 18,165.

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| BATES TOWNSHIP |
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**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

FISCAL YEAR ENDED MARCH 31, 2006

NOTE B - INTERFUND ACTIVITIES (CONTINUED)

INTER-FUND RECEIVABLES AND PAYABLES

(Continued)

The Water Fund and the Sewer Fund owe the General Fund reimbursements for wages, benefits, and operating expenses which are paid back to the General Fund the following month. The Trust and Agency (tax) fund overpaid the General Fund \$ 67 of commercial forest monies, which were subsequently adjusted when settled with the County.

OPERATING TRANSFERS

Inter-fund transfers are the result of legally authorized transfers from a fund receiving revenue to the fund through which the resources are to be expended.

During the current fiscal year ended March 31, 2006, the Township had no transfers.

OTHER FINANCING SOURCES (USES)

The transfers of cash between the various Township funds are budgeted but reported separately from revenues and expenditures as operating transfers in or (out), unless they represent temporary advances that are to be repaid, in which case, they are carried as assets and liabilities of the advancing or borrowing funds.

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| BATES TOWNSHIP |
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**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

FISCAL YEAR ENDED MARCH 31, 2006

NOTE C - CASH, DEPOSITS, AND INVESTMENTS

REVENUE BONDS - WATER

The funding requirements of Rural Economic and Community Development stipulate that separate accounts be established and funded as follows:

RECEIVING FUND

All gross income and revenue are first deposited in the Water Receiving Fund account. Monies so deposited shall be expended and used as required to properly fund the other accounts.

OPERATION AND MAINTENANCE

A sufficient portion of income and revenue must be deposited to pay reasonable and necessary current expenses of administration, operating, and maintaining the system.

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| BATES TOWNSHIP |
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**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

FISCAL YEAR ENDED MARCH 31, 2006

NOTE C - CASH, DEPOSITS, AND INVESTMENTS

REVENUE BONDS - WATER (Continued)

BOND AND INTEREST REDEMPTION

Each quarter, deposits must be made to this account for payment of principle and interest on the Bonds in a sum equal to or not less than one fourth of the annual interest and principal on the Bonds.

On March 31, 2006, the Township is required to have \$23,100 on deposit in the Bond and Interest Redemption account. The actual balance on March 31, 2006 is \$32,991.

As of March 31, 2006, the Township was in compliance with the funding requirements for the Bond and Interest Redemption account.

BOND RESERVE

A minimum of \$ 2,325, per quarter must be deposited in this account until there is accumulated the sum of \$ 93,000.

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| BATES TOWNSHIP |
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**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

FISCAL YEAR ENDED MARCH 31, 2006

NOTE C- CASH, DEPOSITS, AND INVESTMENTS (CONTINUED)

REVENUE BONDS - WATER (Continued)

BOND RESERVE (Continued)

The monies in this account are to be used solely for the payment and interest on said bonds as to which there would otherwise be default. On March 31, 2006, the total in the Bond Reserve account was \$ 104,235, therefore meeting the funding requirements.

REPLACEMENT FUND

Revenues are to be transferred each quarter to the Replacement Fund in such amount as determined by resolution of the Township Board to be used and disbursed only for the purpose of paying the cost of repairing any damage to the System, or repairing or replacing obsolete, deteriorating, deteriorated or worn out portions of the System, and, when necessary, for the purpose of making payments of principal and interest on the Bonds. On March 31, 2006, the Replacement Fund has a cash balance of \$7,874.

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| BATES TOWNSHIP |
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**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

FISCAL YEAR ENDED MARCH 31, 2006

NOTE C- CASH, DEPOSITS, AND INVESTMENTS (CONTINUED)

REVENUE BONDS - WATER (Continued)

IMPROVEMENT FUND

Revenues are to be transferred each quarter to the Improvement Fund in such amount as determined by resolution of the Township Board. Money in the Improvement Fund shall be used and disbursed only for the purpose of paying the cost of making improvements to the system, and when necessary, for the purpose of making payments of principal and interest on the bonds.

On March 31, 2006, the Improvement Fund has a cash balance of \$ 7,874.

REVENUE BONDS - SEWER

The funding requirements of the Sanitary Sewage System Revenue Refunding Bonds. Series 2005 stipulate that separate accounts be established and funded as follows:

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| BATES TOWNSHIP |
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**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

FISCAL YEAR ENDED MARCH 31, 2006

NOTE C- CASH, DEPOSITS, AND INVESTMENTS (CONTINUED)

REVENUE BONDS - SEWER (Continued)

RECEIVING FUND

All gross income and revenue are first to be deposited in the Sanitary Sewage System Receiving Fund Account. Monies so deposited shall be expended and used as required to properly fund the other accounts.

OPERATION AND MAINTENANCE ACCOUNTS

A sufficient portion of income and revenue must be deposited to pay the reasonable and necessary current expenses of administration, operating, and maintaining the System.

BOND AND INTEREST REDEMPTION

Each month, deposits must be made to this account for payment of principal and interest on the bonds in a sum equal to or not less than one sixth of the semi-annual interest and one-twelfth of the annual principle payment on the Refunding Bonds.

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| BATES TOWNSHIP |
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**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

FISCAL YEAR ENDED MARCH 31, 2006

NOTE C- CASH, DEPOSITS, AND INVESTMENTS (CONTINUED)

REVENUE BONDS - SEWER (Continued)

BOND AND INTEREST REDEMPTION (Continued)

On March 31, 2006, the Township is required to have \$16,033 on deposit in the Bond and Interest Redemption account. The actual balance on March 31, 2006 was \$28,560, therefore, the Township has met the funding requirements.

GENERAL PURPOSE ACCOUNT

By ordinance, the balance of revenues in the Receiving Fund are to be set aside and transferred to the General Purpose Account.

On March 31, 2006, the General Purpose Money Market account had a balance of \$ 22,679.

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| BATES TOWNSHIP |
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**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

FISCAL YEAR ENDED MARCH 31, 2006

NOTE C- CASH, DEPOSITS, AND INVESTMENTS (CONTINUED)

PRIMARY GOVERNMENT

On March 31, 2006, the carrying value of the Township's deposits (Primary Government) was \$ 437,545 and is comprised of cash and deposits reflected in the following funds:

| | |
|--|------------------|
| <i>Governmental Funds</i> | |
| General Fund | \$ 96422 |
| Liquor Law Enforcement Fund | 652 |
| Road Fund | <u>28445</u> |
| <i>Total Governmental Funds</i> | 125519 |
| <i>Enterprise Funds</i> | |
| Water Fund | 158801 |
| Sewer Fund | <u>130286</u> |
| <i>Total Enterprise Funds</i> | 289087 |
| <i>Fiduciary Funds</i> | |
| Tax Collection Fund | <u>22939</u> |
| <i>Total Fiduciary Funds</i> | 22939 |
| TOTAL PRIMARY GOVERNMENT | \$ 437545 |

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| BATES TOWNSHIP |
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**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

FISCAL YEAR ENDED MARCH 31, 2006

NOTE C - CASH, DEPOSITS, AND INVESTMENTS (CONTINUED)

The Governmental Accounting Standards Board Statement No. 3, risk disclosures for the local unit's cash deposits classifies cash according to three levels of risk.

The three levels of risk are as follows:

Category 1

Deposits which are insured or collateralized with securities held by the Township or its agent in the Township's name.

Category 2

Deposits which are collateralized with securities held by the pledging financial institution's trust department or agent in the Township's name.

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| BATES TOWNSHIP |
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**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

FISCAL YEAR ENDED MARCH 31, 2006

NOTE C - CASH, DEPOSITS, AND INVESTMENTS (CONTINUED)

Category 3

Deposits which are not collateralized or insured.

Based on these levels of risk, the Township's cash deposits
(Primary Government) are classified as follows:

SCHEDULE OF CASH AND DEPOSITS

PRIMARY GOVERNMENT

| | <u>Category 1</u> | <u>Category 2</u> | <u>Category 3</u> | <u>Totals</u> |
|-------------------|------------------------------|------------------------------|------------------------------|----------------------|
| Cash and Deposits | \$ 301168 | \$ -0- | \$ 136377 | \$ 437545 |

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| BATES TOWNSHIP |
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**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

FISCAL YEAR ENDED MARCH 31, 2006

NOTE C - CASH, DEPOSITS, AND INVESTMENTS (CONTINUED)

INVESTMENTS

The Township's investments are categorized below to give an indication of the level of risk assumed at year-end. **Category 1** includes investments that are insured or registered or for which the securities are held by the Township or its agent in the Township's name. **Category 2** includes uninsured and unregistered investments for which the securities are held by the broker's or dealer's safekeeping department or agent in the Township's name. **Category 3** includes uninsured and registered investments for which the securities are held by the broker or dealer, or by its safekeeping department or agent, but not in the Township's name.

There are no investments for the Township, as reflected below:

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| BATES TOWNSHIP |
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**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

FISCAL YEAR ENDED MARCH 31, 2006

NOTE C - CASH, DEPOSITS, AND INVESTMENTS (CONTINUED)

INVESTMENTS (Continued)

| | Category <u>1</u> | Category <u>2</u> | Category <u>3</u> | Carrying Value | Market Value |
|-------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| Investment Type | \$ <u>-0-</u> | \$ <u>-0-</u> | \$ <u>-0-</u> | \$ <u>-0-</u> | \$ <u>-0-</u> |
| Total Investments | \$ <u><u>-0-</u></u> | \$ <u><u>-0-</u></u> | \$ <u><u>-0-</u></u> | \$ <u><u>-0-</u></u> | \$ <u><u>-0-</u></u> |

STATUTORY AUTHORITY

Act 196, PA 1997, authorizes the Township to deposit and invest in:

1. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.

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| BATES TOWNSHIP |
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**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

FISCAL YEAR ENDED MARCH 31, 2006

NOTE C - CASH, DEPOSITS, AND INVESTMENTS (CONTINUED)

STATUTORY AUTHORITY (Continued)

2. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution eligible to be a depository of funds belonging to the State of Michigan under a law or rule of this state or the United States.
3. Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.
4. Repurchase agreements consisting of instruments issued by the United States or an agency or instrumentality of the United States.

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| BATES TOWNSHIP |
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**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

FISCAL YEAR ENDED MARCH 31, 2006

NOTE C - CASH, DEPOSITS, AND INVESTMENTS (CONTINUED)

STATUTORY AUTHORITY (Continued)

5. Bankers acceptances of United States banks.
6. Obligations of the State of Michigan or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than one standard rating service.
7. Mutual funds registered under the Investment Act of 1950 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.

The Township has adopted an investment policy, allowing for all types of deposits and investments listed above. The Township's deposits and investments are in compliance with its investment policy.

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| BATES TOWNSHIP |
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**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

FISCAL YEAR ENDED MARCH 31, 2006

NOTE D - PENSION PLAN

DESCRIPTION OF PLAN AND PLAN ASSETS

Bates Township is in an agent multiple-employer defined benefit pension plan with the Municipal Employees' Retirement System (MERS). The system provides the following provisions: normal retirement, deferred retirement, service retirement allowance, disability retirement allowance, non-duty-connected death and postretirement adjustments to plan members and their beneficiaries. The service requirement is computed using credited service at the time of termination of membership multiplied by the sum of 2.25 percent times the final average compensation (FAC) with a maximum benefit of 80 percent of FAC. The most recent period for which actuarial data was available was for the fiscal year ended December 31, 2005.

MERS was organized pursuant to Section 12a of Act#156, Public Acts of 1851 (MSA 5.333(a); MCLA 46.12(a), as amended, State of Michigan. MERS is regulated under Act No. 427 of the Public Acts of 1984, sections of which have been approved by the State Pension Commission.

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| BATES TOWNSHIP |
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**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

FISCAL YEAR ENDED MARCH 31, 2006

NOTE D - PENSION PLAN (CONTINUED)

DESCRIPTION OF PLAN AND PLAN ASSETS
(Continued)

MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system.

That report may be obtained by writing to:

| |
|---|
| <p>MERS 447 North Canal Street Lansing, Michigan 48917-9755</p> |
|---|

FUNDING POLICY

The obligation to contribute to and maintain the system for these employees was established by personnel policy, which does not require employees to contribute to the plan. The Township is required to contribute at an actuarially determined rate; the current rate is 21.77 percent at December 31, 2005.

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| BATES TOWNSHIP |
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**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

FISCAL YEAR ENDED MARCH 31, 2006

NOTE D - PENSION PLAN (CONTINUED)

ANNUAL PENSION PLAN

During the fiscal year ended March 31, 2006, the Township's contributions totaling \$19,296 were made in accordance with contribution requirement determined by an actuarial valuation of the plan as of December 31, 2004.

The employer contribution rate has been determined based on the entry age normal funding method. Under the entry age normal cost funding method, the total employer contribution is comprised of the normal cost plus the level annual percentage of payroll payment required to amortize the unfunded actuarial accrued liability over 30 years.

The employer normal cost is, for each employee, the level percentage of payroll contribution (from entry age to retirement) required to accumulate sufficient assets at the member's retirement to pay for his projected benefit.

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| BATES TOWNSHIP |
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**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

FISCAL YEAR ENDED MARCH 31, 2006

NOTE D - PENSION PLAN (CONTINUED)

ANNUAL PENSION PLAN (Continued)

Significant actuarial assumptions used include a long-term investment yield rate of 8 percent and annual salary increases of 4.5 percent based on age-related scale to reflect merit, longevity, and promotional salary increases.

THREE YEAR TREND INFORMATION FOR GASB STATEMENT NO. 27

| <u>Year Ended December 31</u> | <u>Annual Pension Cost (APC)</u> | <u>Percentage of AP Contribution</u> |
|--|--|---|
| 2003 | \$ 12632 | 100% |
| 2004 | 12632 | 100% |
| 2005 | 12632 | 100% |

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| BATES TOWNSHIP |
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**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

FISCAL YEAR ENDED MARCH 31, 2006

NOTE D - PENSION PLAN (CONTINUED)

REQUIRED SUPPLEMENTARY INFORMATION FOR GASB STATEMENT NO. 25

| Actuarial Valuation Date | Actuarial Value of Assets | Actuarial Accrued Liability (AAL) | Under-funded AAL (UAAL) | Funded Ratio | Covered Payroll | UUAL as a Percent of Covered Payroll |
|---|--|--|--|-------------------------|----------------------------|---|
| 12/31/03 | \$ 106662 | \$ 231247 | \$ 124585 | 43% | \$ 266664 | 467% |
| 12/31/04 | 111725 | 254687 | 142962 | 43% | 60510 | 236% |
| 12/31/05 | 124077 | 264046 | 139969 | 46% | 58626 | 239% |

GASB 5 AND GASB 27 INFORMATION

The following information has been prepared to provide the information necessary to comply with GASB Statements 25 and 27. Statement 25 is effective for fiscal years beginning after June 15, 1996 and Statement 27 is effective for fiscal years beginning after June 15, 1998.

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| BATES TOWNSHIP |
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**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

FISCAL YEAR ENDED MARCH 31, 2006

NOTE D - PENSION PLAN (CONTINUED)

GASB 5 AND GASB 27 INFORMATION (Continued)

All entries are based on the actuarial methods and assumptions that were used in the December 31, 2005 actuarial valuation to determine the annual employer contribution amounts. The entry age normal actuarial method was used to determine the entries at disclosure.

GASB 25 INFORMATION (as of 12/31/05)

| | |
|--|-------------------|
| Actuarial Accrued Liability | |
| Retirees and beneficiaries currently receiving benefits | \$ 123,586 |
| Terminated employees not yet receiving benefits | 0 |
| Actuarial Accrued Liability | |
| Current employees - | |
| Accumulated employee contributions including allocated investment income | 0 |
| Employer Financed | <u>140,460</u> |
| Total Actuarial Accrued Liability | \$ 264,046 |
| Net Assets Available for Benefits at Actuarial Value (Market Value is \$ 120,807) | \$ <u>124,077</u> |
| Unfunded (Over-funded) Actuarial Accrued Liability | \$ 139,969 |

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| BATES TOWNSHIP |
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**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

FISCAL YEAR ENDED MARCH 31, 2006

NOTE D - PENSION PLAN (CONTINUED)

GASB 27 INFORMATION (as of 12/31/05)

| | |
|------------------------------------|---------------|
| Fiscal Year Beginning | April 1, 2007 |
| Annual Required Contribution (ARC) | \$ 12,756 |
| Amortization Factor Used | 0.053632 |

NOTE E - EXCESS OF EXPENDITURES OVER APPROPRIATIONS IN BUDGETARY FUNDS

BUDGET VIOLATIONS

P.A. 621 of 1978, SECTION 18 (1), as amended, provides a local unit shall not incur expenditures in excess of the amounts appropriated.

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| BATES TOWNSHIP |
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**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

FISCAL YEAR ENDED MARCH 31, 2006

**NOTE E - EXCESS OF EXPENDITURES OVER APPROPRIATIONS IN BUDGETARY FUNDS
(CONTINUED)**

BUDGET VIOLATIONS (Continued)

The Township's actual expenditures and budgeted expenditures for the funds budgeted have been shown on an activity basis.

The approved budgets of **Bates Township** were adopted at the activity level. The budget is prepared on the modified accrual basis of accounting, which is the same basis as financial statements.

The total actual 2005-2006 expenditures for the following activities (cost centers) exceeded the amended budget allocations by a total of \$ 33,244 contrary to the provisions of Section 17 of Public Act 621 of 1978, the "Uniform Budgeting and Accounting Act".

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| BATES TOWNSHIP |
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**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

FISCAL YEAR ENDED MARCH 31, 2006

**NOTE E - EXCESS OF EXPENDITURES OVER APPROPRIATIONS IN BUDGETARY FUNDS
(CONTINUED)**

BUDGET VIOLATIONS (Continued)

| <u>ACTIVITY (COST CENTER)</u> | <u>ACTUAL</u> | <u>BUDGET</u> | <u>OVER EXPENDITURES</u> |
|--------------------------------------|----------------------|----------------------|-------------------------------------|
| <u>General Fund</u> | | | |
| Township Board | \$ 13490 | \$ 11836 | \$ 1654 |
| Clerk | 16225 | 13439 | 2786 |
| Treasurer | 23191 | 22057 | 1134 |
| Board of Review | 1776 | 1500 | 276 |
| Cemetery | 11724 | 9563 | 2161 |
| Township Property | 31187 | 26428 | 4759 |
| Department of Public Works | 66116 | 49728 | 16388 |
| Recreation and Cultural | 21753 | 20131 | 1622 |
| Community Promotion | 2346 | 2046 | 300 |
| Capital Outlay | 8736 | 6572 | 2164 |

NOTE F - ACCUMULATED FUND DEFICITS

At March 31, 2006, the Township had no fund
balance/retained earnings deficit in any fund.

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| BATES TOWNSHIP |
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**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

FISCAL YEAR ENDED MARCH 31, 2006

NOTE G - RISK MANAGEMENT

The Township is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Township maintains commercial insurance coverage covering each of those risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to the Township. Settled claims have not exceeded this commercial coverage in the past three fiscal years.

NOTE H - CAPITAL ASSETS

The following is a summary of the changes in capital assets for the fiscal year ended March 31, 2006:

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| BATES TOWNSHIP |
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**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

FISCAL YEAR ENDED MARCH 31, 2006

NOTE H - CAPITAL ASSETS (CONTINUED)

| | Balance March 31, <u>2005</u> | <u>Increases</u> | <u>Decreases</u> | Balance March 31, <u>2006</u> |
|--|-------------------------------------|-----------------------|--------------------|-------------------------------------|
| <u>GOVERNMENTAL ACTIVITIES</u> | | | | |
| <u>Capital Assets Not Being Depreciated</u> | | | | |
| Land and Land Improvements | \$ 16218 | \$ 0 | \$ 0 | \$ 16218 |
| Total Capital Assets Not Being Depreciated | \$ 16218 | \$ 0 | \$ 0 | \$ 16218 |
| <u>Other Capital Assets</u> | | | | |
| Buildings | 145996 | 0 | 0 | 145996 |
| Furniture and Other Equipment | <u>117097</u> | <u>8736</u> | <u>0</u> | <u>125833</u> |
| Total Other Capital Assets | \$ 263093 | \$ 8736 | \$ 0 | \$ 271829 |
| Less Accumulated Depreciation for: | | | | |
| Buildings | (70209) | (2021) | 0 | (72230) |
| Furniture and Other Equipment | <u>(94653)</u> | <u>(4318)</u> | <u>0</u> | <u>(98971)</u> |
| Total Accumulated Depreciation | (164862) | (6339) | 0 | (171201) |
| Other Capital Assets, Net | 98231 | 2397 | 0 | 100628 |
| TOTAL GOVERNMENTAL ACTIVITIES | \$ <u>114449</u> | \$ <u>2397</u> | \$ <u>0</u> | \$ <u>116846</u> |

Depreciation was charged to governmental functions as unallocated.

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| BATES TOWNSHIP |
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**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

FISCAL YEAR ENDED MARCH 31, 2006

NOTE H - CAPITAL ASSETS (CONTINUED)

BUSINESS-TYPE ACTIVITIES

The following is a summary of changes in capital assets for business-type activities for the fiscal year ended March 31, 2006:

| | <u>Balance March 31, 2005</u> | <u>Increases</u> | <u>Decreases</u> | <u>Balance March 31, 2006</u> |
|---|--|-------------------------|-------------------------|--|
| <u>BUSINESS-TYPE ACTIVITIES</u> | | | | |
| <u>Capital Assets Not Being Depreciated:</u> | | | | |
| Land | \$ 0 | \$ 0 | \$ 0 | \$ 0 |
| <u>Other Capital Assets:</u> | | | | |
| Machinery and Equipment | 41375 | 2749 | 0 | 44124 |
| Water Mains/Lines | 3843247 | 10160 | 0 | 3853407 |
| Sewer Mains/Line | <u>2695043</u> | <u>0</u> | <u>0</u> | <u>2695043</u> |
| Total Capital Assets | \$ 6579665 | \$ 12909 | \$ 0 | \$ 6592574 |

(Continued on page 98)

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| BATES TOWNSHIP |
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**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

FISCAL YEAR ENDED MARCH 31, 2006

NOTE H - CAPITAL ASSETS (CONTINUED)

BUSINESS-TYPE ACTIVITIES (Continued)

(Continued from previous page)

| | <u>Balance March 31, 2005</u> | <u>Increases</u> | <u>Decreases</u> | <u>Balance March 31, 2006</u> |
|--|--|-------------------------------|-------------------------|--|
| Less Accumulated Depreciation for: | | | | |
| Machinery and Equipment | \$ (8643) | \$ (4422) | \$ 0 | \$ (13065) |
| Water Mains/Lines | (1066265) | (148660) | 0 | (1214925) |
| Sewer Mains/Lines | <u>(1647004)</u> | <u>(68852)</u> | <u>0</u> | <u>(1715856)</u> |
| Total Accumulated Depreciation | <u>(2721912)</u> | <u>(221934)</u> | <u>0</u> | <u>(2943846)</u> |
| TOTAL BUSINESS- TYPE ACTIVITIES | \$ <u>3857753</u> | \$ <u>(209025)</u> | \$ <u>0</u> | \$ <u>3648728</u> |

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| BATES TOWNSHIP |
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**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

FISCAL YEAR ENDED MARCH 31, 2006

NOTE I - LONG-TERM DEBT

The following is a summary of changes of the primary government's long-term debt obligation on March 31, 2006.

GOVERNMENTAL ACTIVITIES

| | <u>MARCH 31,</u> <u>2005</u> | <u>Increases</u> | <u>Decreases</u> | <u>MARCH 31,</u> <u>2006</u> |
|---|---|-------------------------|-------------------------|---|
| <u>BUSINESS-TYPE ACTIVITIES</u> | | | | |
| Water Supply System Project | \$ 1305000 | \$ -0- | \$ 25000 | \$ 1280000 |
| Sanitary Sewage System Revenue Bonds | 271000 | -0- | 271000 | -0- |
| Sanitary Sewage System Revenue Refunding Bonds, Series 2005 | <u>-0-</u> | <u>210000</u> | <u>-0-</u> | <u>210000</u> |
| TOTALS | \$ <u>1576000</u> | \$ <u>210000</u> | \$ <u>296000</u> | \$ <u>1490000</u> |

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| BATES TOWNSHIP |
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**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

FISCAL YEAR ENDED MARCH 31, 2006

NOTE I - LONG-TERM DEBT (CONTINUED)

WATER SUPPLY SYSTEM PROJECT

The Township received funding through the Rural Economic and Community Development Services, U.S. Department of Agriculture for improvements to its water supply system. The cost of the Project was \$3,260,000, and the period of usefulness of the Project is estimated to be not less than forty (40) years.

To pay part of the cost of acquiring and constructing the Project, the Township borrowed the sum of One Million Four Hundred Sixty Seven Thousand Dollars (\$1,467,000) and revenue bonds have been issued pursuant to the provisions of Act 94. The balance of the cost of the Project was financed primarily by grant funds, approved in the amount of \$ 1,793,000.

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| BATES TOWNSHIP |
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**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

FISCAL YEAR ENDED MARCH 31, 2006

NOTE I - LONG-TERM DEBT (CONTINUED)

WATER SUPPLY SYSTEM PROJECT (Continued)

On 9/15/94, the Township issued a 1994 Water Supply System Revenue Bond (General Obligation Limited Tax) as one single fully registered Bond numbered R-1 of the denomination of \$ 1,467,000 payable on September 1st of each year. Interest is payable semiannually on September 1st and March 1st of each year at 5.25% per annum.

The requirements to amortize all debt outstanding as of March 31, 2006, including interest payments are as follows:

| | March 1 <u>Interest</u> | September 1 | | Total |
|------|--|-------------------------|------------------------|--------------|
| | | <u>Principal</u> | <u>Interest</u> | |
| 2006 | \$ | \$ 30000 | \$ 33600 | \$ 63600 |
| 2007 | 32813 | 30000 | 32813 | 95626 |
| 2008 | 32025 | 30000 | 32025 | 94050 |
| 2009 | 31238 | 30000 | 31238 | 92476 |

(Continued on page 102)

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| BATES TOWNSHIP |
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**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

FISCAL YEAR ENDED MARCH 31, 2006

NOTE I - LONG-TERM DEBT (CONTINUED)

WATER SUPPLY SYSTEM PROJECT (Continued)

(Continued from previous page)

| | March 1 | September 1 | | |
|---------------|-------------------------|--------------------------|-------------------------|--------------------------|
| | <u>Interest</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
| 2010 | 30450 | 35000 | 30450 | 95900 |
| 2011 | 29531 | 35000 | 29531 | 94062 |
| 2012 | 28613 | 35000 | 28613 | 92226 |
| 2013 | 27694 | 35000 | 27694 | 90388 |
| 2014 | 26775 | 35000 | 26775 | 88550 |
| 2015 | 25856 | 35000 | 25856 | 86712 |
| 2016-2020 | 114190 | 205000 | 114190 | 433380 |
| 2021-2025 | 85838 | 235000 | 85838 | 406676 |
| 2026-2030 | 53420 | 265000 | 53420 | 371840 |
| 2031-2034 | <u>16274</u> | <u>245000</u> | <u>16274</u> | <u>277548</u> |
| Totals | \$ <u>534717</u> | \$ <u>1280000</u> | \$ <u>568317</u> | \$ <u>2383034</u> |

Subsequent to the completion of the Water Supply system project, the Township undertook the construction of an elevated cylinder tank, necessitated by unacceptably low water pressure conditions.

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| BATES TOWNSHIP |
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**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

FISCAL YEAR ENDED MARCH 31, 2006

NOTE I- LONG-TERM DEBT (CONTINUED)

WATER SUPPLY SYSTEM PROJECT (Continued)

The project was funded by a 75% federal grant with the local match funded by U.P. Engineers & Architects, Inc. and their insurance company. The project was completed at no cost to the Township.

REVENUE BONDS - SEWER

\$538,000 of sanitary sewage system revenue bonds were issued in previous years for the purpose of partial funding of the **Bates Township's** sanitary sewer system. The bonds were payable solely from the net income and revenues derived from the operation of the system.

There bonds were fully paid from the issuance of Sanitary Sewer System Revenue Refunding Bond, Series 2005.

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| BATES TOWNSHIP |
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**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

FISCAL YEAR ENDED MARCH 31, 2006

NOTE I - LONG-TERM DEBT (CONTINUED)

**SANITARY SEWAGE SYSTEM REVENUE
REFUNDING BOND, SERIES 2005**

On September 27, 2005, the Township issued to the Miners State Bank, Iron River, Michigan, Sanitary Sewage System Revenue Refunding Bonds in the amount of \$ 210,000, to be used for the purpose of refunding the 1979 Sanitary Sewage System Revenue Bonds.

The bond consists of one single fully-registered bond in the denomination of \$ 210,000, payable in annual principal installments on September 01 of each year. The bonds bear interest from the date of delivery at the rate of four and ninety-five hundredths percent (4.95%) per annum, payable on March 01, 2006 and semiannually thereafter until maturity or earlier prepayment.

The requirements to amortize the outstanding debt as of March 31, 2006 is as follows:

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| BATES TOWNSHIP |
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**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

FISCAL YEAR ENDED MARCH 31, 2006

NOTE I - LONG-TERM DEBT (CONTINUED)

**SANITARY SEWAGE SYSTEM REVENUE
REFUNDING BOND, SERIES 2005 (Continued)**

| | March 01 | September 01 | | |
|---------------|---------------------------|----------------------------|---------------------------|----------------------------|
| | <u>Interest</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
| 2006 | \$ | \$ 26000.00 | \$ 5197.50 | \$ 31197.50 |
| 2007 | 4554.00 | 27000.00 | 4554.00 | 36108.00 |
| 2008 | 3885.75 | 28000.00 | 3885.75 | 35771.50 |
| 2009 | 3192.75 | 30000.00 | 3192.75 | 36385.50 |
| 2010 | 2450.25 | 31000.00 | 2450.25 | 35900.50 |
| 2011 | 1683.00 | 33000.00 | 1683.00 | 36366.00 |
| 2012 | <u>866.25</u> | <u>35000.00</u> | <u>866.25</u> | <u>36732.50</u> |
| Totals | \$ <u>16632.00</u> | \$ <u>210000.00</u> | \$ <u>21829.50</u> | \$ <u>248461.50</u> |

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| BATES TOWNSHIP |
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**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

FISCAL YEAR ENDED MARCH 31, 2006

NOTE J - SEGMENT INFORMATION - Enterprise Funds

| | <u>Water Fund</u> | <u>Sewer Fund</u> | <u>Total Enterprise Funds</u> |
|--|-----------------------|-----------------------|---------------------------------------|
| Operating Revenues | \$ 190756 | \$ 85512 | \$ 276268 |
| Depreciation and Amortization Expense | 152392 | 69542 | 221934 |
| Operating Income or (Loss) | (59844) | (31462) | (91306) |
| Operating Grants, Entitlements, and Shared Revenues | 0 | 0 | 0 |
| Operating Transfers: | | | |
| In | 0 | 0 | 0 |
| (Out) | 0 | 0 | 0 |
| Tax Revenues | 0 | 0 | 0 |
| Net Income or Loss | (123497) | (38768) | (162265) |

(Continued on page 107)

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| BATES TOWNSHIP |
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**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

FISCAL YEAR ENDED MARCH 31, 2006

NOTE J - SEGMENT INFORMATION - Enterprise Funds (CONTINUED)

(Continued from previous page)

| | <u>Water Fund</u> | <u>Sewer Fund</u> | <u>Total Enterprise Funds</u> |
|---------------------------------|-----------------------|-----------------------|---------------------------------------|
| Current Capital: | \$ | \$ | \$ |
| Contributions | 0 | 0 | 0 |
| Transfers | 0 | 0 | 0 |
| Property, Plant, and Equipment | | | |
| Additions | 11918 | 991 | 12909 |
| Deletions | 0 | 0 | 0 |
| Net Working Capital | (86897) | 1639 | (85258) |
| Total Assets | 2862412 | 1117572 | 3979984 |
| Bonds and Other Long-Term | | | |
| Liabilities | | | |
| Payable from Operating Revenues | 1377734 | 233824 | 1611558 |
| Payable from Other Sources | 0 | 0 | 0 |
| Total Equity | \$ 1484678 | \$ 883748 | \$ 2368426 |

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| BATES TOWNSHIP |
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**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

FISCAL YEAR ENDED MARCH 31, 2006

NOTE K - RELATED PARTY TRANSACTIONS

Related parties exist when there is a relationship that offers the potential for transactions at less than arm's length, favorable treatment, or the ability to influence the outcome of events differently from that which might result in the absence of that relationship.

Financial statements must include disclosure of material related party transactions, other than compensation arrangements, expense allowances and similar items in the ordinary course of business. However, disclosure of transactions that are eliminated in the preparation of combined financial statements is not required in those statements.

On this basis, there were no related party transactions reported in the financial statements.

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| BATES TOWNSHIP |
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**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

FISCAL YEAR ENDED MARCH 31, 2006

NOTE L - SUBSEQUENT EVENTS

Subsequent events have a material effect on the financial statements which requires adjustment or disclosure.

They relate to events that provide additional evidence with respect to conditions that existed at the date of the balance sheet and events that provide evidence with respect to conditions that did not exist at the date of the balance sheet but arose subsequent to that date.

At fiscal year ended March 31, 2006, there were no subsequent events that would have a significant affect on the Township's operations.

NOTE M - COMMITMENTS AND CONTINGENCIES

There are no commitments or contingencies to be reported as of March 31, 2006.

REQUIRED SUPPLEMENTAL INFORMATION

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| BATES TOWNSHIP |
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REQUIRED SUPPLEMENTAL INFORMATION

BUDGETARY COMPARISON SCHEDULE - GENERAL FUND

YEAR ENDED MARCH 31, 2006

| | <u>Original Budget</u> | <u>Final Amended Budget</u> | <u>Actual</u> |
|---|----------------------------|---------------------------------|-------------------|
| <u>Revenue</u> | | | |
| General property taxes | \$ 102,000 | \$ 102,000 | \$ 101,486 |
| Other local taxes/administration fees | 26,000 | 26,000 | 28,621 |
| Licenses, permits, and fees | 2,500 | 2,500 | 850 |
| Sale of property | - | - | - |
| Use of money and property | 4,100 | 4,100 | 4,211 |
| Charges for services-tax collection | 6,000 | 6,000 | 6,253 |
| Cemetery revenues | 3,000 | 3,000 | 2,500 |
| Parks and recreation | 3,000 | 3,000 | 3,775 |
| Miscellaneous | 7,700 | 7,700 | 18,716 |
| Intergovernmental | 60,000 | 60,000 | 73,529 |
| Total Revenue | \$ 214,300 | \$ 214,300 | \$ 239,941 |
| <u>Expenditures</u> | | | |
| General government | \$ 78,059 | \$ 78,059 | \$ 81,225 |
| Legislative | 11,836 | 11,836 | 13,490 |
| Township property | 26,428 | 26,428 | 31,187 |
| Department of Public Works | 49,728 | 49,728 | 66,012 |
| Public Safety | 19,000 | 19,000 | 19,000 |
| Recreation and Culture | 20,131 | 20,131 | 21,753 |
| Community Promotion | 2,046 | 2,046 | 2,346 |
| Capital outlay | 6,572 | 6,572 | 8,706 |
| Total Expenditures | \$ 213,800 | \$ 213,800 | \$ 243,719 |
| <u>Other Financing Sources (Uses)</u> | | | |
| Operating transfers in | - | - | - |
| Operating transfers out | - | - | - |
| Total Other Financing Sources (Uses) | - | - | - |
| Net Change in Fund Balance | 500 | 500 | (3,778) |
| Fund Balance -Beginning of year | 205,346 | 205,346 | 205,346 |
| Fund Balance - End of year | \$ 205,846 | \$ 205,846 | \$ 201,568 |

The notes to the financial statements are an integral part of this report.

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| BATES TOWNSHIP |
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REQUIRED SUPPLEMENTAL INFORMATION

BUDGETARY COMPARISON SCHEDULE - ROAD REPAIR FUND

YEAR ENDED MARCH 31, 2006

| | <u>Original Budget</u> | <u>Final Amended Budget</u> | <u>Actual</u> |
|---|----------------------------|---------------------------------|------------------------|
| <u>Revenue</u> | | | |
| Property taxes | \$ 32,700 | \$ 32,700 | \$ 32,218 |
| Intergovernmental | - | - | 4,892 |
| | <hr/> | <hr/> | <hr/> |
| Total Revenue | 32,700 | 32,700 | 37,110 |
| <u>Expenditures</u> | | | |
| Public Works | 32,700 | 32,700 | 30,092 |
| | <hr/> | <hr/> | <hr/> |
| Total Expenditures | 32,700 | 32,700 | 30,092 |
| Excess of Revenues Over (Under) Expenditures | - | - | 7,018 |
| <u>Other Financing Sources (Uses)</u> | | | |
| Operating transfers in | - | - | - |
| Net Change in Fund Balance | - | - | 7,018 |
| Fund Balance -Beginning of year | <hr/> 21,427 | <hr/> 21,427 | <hr/> 21,427 |
| Fund Balance - End of year | <hr/> <u>\$ 21,427</u> | <hr/> <u>\$ 21,427</u> | <hr/> <u>\$ 28,445</u> |

The notes to the financial statements are an integral part of this report.

OTHER SUPPLEMENTAL INFORMATION

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| BATES TOWNSHIP |
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OTHER SUPPLEMENTAL INFORMATION

BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUND

MARCH 31, 2006

| | LIQUOR LAW ENFORCEMENT FUND |
|---------------------------|--|
| <u>ASSETS</u> | |
| Cash | \$ 652 |
| TOTAL ASSETS | \$ 652 |
| <u>FUND EQUITY</u> | |
| Fund Balance | \$ 652 |
| TOTAL FUND EQUITY | \$ 652 |

The notes to the financial statements are an integral part of this report.

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| BATES TOWNSHIP |
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OTHER SUPPLEMENTAL INFORMATION**STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCE - NON-MAJOR GOVERNMENTAL FUND***MARCH 31, 2006*

| | <u>Liquor Law Enforcement Fund</u> |
|--|---|
| <u>REVENUE</u> | |
| Intergovernmental | <u>\$ 385</u> |
| TOTAL REVENUE | \$ 385 |
| <u>EXPENDITURES</u> | |
| Current: | |
| Public safety | <u>343</u> |
| TOTAL EXPENDITURES | 343 |
| Excess (Deficiency) of Revenues Over Expenditures | 42 |
| FUND BALANCE - BEGINNING OF YEAR | <u>610</u> |
| FUND BALANCE - END OF YEAR | <u>\$ 652</u> |

The notes to the financial statements are an integral part of this report.

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| BATES TOWNSHIP |
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COMBINING BALANCE SHEET- ALL SPECIAL REVENUE FUNDS

MARCH 31, 2006

| | LIQUOR LAW ENFORCEMENT FUND | TOWNSHIP ROAD FUND | TOTAL |
|---|-----------------------------------|--------------------------|-------------------------|
| <u>ASSETS</u> | | | |
| Cash | \$ 652 | \$ 28,445 | \$ 29,097 |
| Due from Other Funds | - | - | - |
| TOTAL ASSETS | <u>\$ 652</u> | <u>\$ 28,445</u> | <u>\$ 29,097</u> |
| <u>LIABILITIES AND FUND EQUITY</u> | | | |
| <u>LIABILITIES</u> | | | |
| Due to Other Funds | - | - | - |
| TOTAL LIABILITIES | - | - | - |
| <u>FUND EQUITY</u> | | | |
| Fund Balance | | | |
| Reserved for Liquor Law Enforcement | 652 | - | 652 |
| Reserved for Road Maintenance and Improvement | - | 28,445 | 28,445 |
| TOTAL FUND EQUITY | 652 | 28,445 | 29,097 |
| TOTAL LIABILITIES AND FUND EQUITY | <u>\$ 652</u> | <u>\$ 28,445</u> | <u>\$ 29,097</u> |

The notes to the financial statements are an integral part of this report.

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| BATES TOWNSHIP |
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**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND
EQUITY - ALL SPECIAL REVENUE FUNDS**

FISCAL YEAR ENDED MARCH 31, 2006

| | <u>Liquor Law Enforcement Fund</u> | <u>Road Repair Fund</u> | <u>Totals</u> |
|---|--|------------------------------------|------------------------------------|
| <u>REVENUES</u> | | | |
| Property Taxes | \$ - | \$ 32,218 | \$ 32,218 |
| Grants | 385 | 4,892 | 5,277 |
| | <hr/> | <hr/> | <hr/> |
| TOTAL REVENUES | 385 | 37,110 | 37,495 |
| <u>EXPENDITURES</u> | | | |
| Personal Services | 343 | - | 343 |
| Maintenance | - | 30,092 | 30,092 |
| | <hr/> | <hr/> | <hr/> |
| TOTAL EXPENDITURES | 343 | 30,092 | 30,435 |
| Excess of Revenues Over (Under) Expenditures | 42 | 7,018 | 7,060 |
| FUND BALANCE, BEGINNING OF YEAR | <hr/> 610 | <hr/> 21,427 | <hr/> 22,037 |
| FUND BALANCE, END OF YEAR | <u><u>\$ 652</u></u> | <u><u>\$ 28,445</u></u> | <u><u>\$ 29,097</u></u> |

The notes to the financial statements are an integral part of this report.

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| BATES TOWNSHIP |
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COMBINING BALANCE SHEET - ALL ENTERPRISE FUND TYPES

MARCH 31, 2006

| | <u>Water Fund</u> | <u>Sewer Fund</u> | <u>Totals</u> |
|---|----------------------------|----------------------------|----------------------------|
| <u>ASSETS</u> | | | |
| <i>Current Assets:</i> | | | |
| Cash and Deposits, Unrestricted | \$ 5,827 | \$ 38,304 | \$ 44,131 |
| Accounts Receivable, Net | <u>35,010</u> | <u>7,159</u> | <u>42,169</u> |
| <i>Total Current Assets</i> | 40,837 | 45,463 | 86,300 |
| <i>Noncurrent Assets:</i> | | | |
| Cash and Deposits, Restricted | 152,974 | 91,982 | 244,956 |
| Property, Plant, and Equipment | 3,891,128 | 2,701,446 | 6,592,574 |
| Accumulated Depreciation | <u>(1,222,527)</u> | <u>(1,721,319)</u> | <u>(2,943,846)</u> |
| <i>Total Noncurrent Assets</i> | 2,821,575 | 1,072,109 | 3,893,684 |
| TOTAL ASSETS | <u>\$ 2,862,412</u> | <u>\$ 1,117,572</u> | <u>\$ 3,979,984</u> |
| <u>LIABILITIES AND FUND EQUITY</u> | | | |
| <u>LIABILITIES</u> | | | |
| <i>Current Liabilities:</i> | | | |
| Accounts payable | \$ 5,400 | \$ - | \$ 5,400 |
| Due to Other Funds | 73,434 | 23,824 | 97,258 |
| Current portion of long-term debt | 30,000 | 20,000 | 50,000 |
| Deferred revenues | <u>18,900</u> | <u>-</u> | <u>18,900</u> |
| <i>Total Current Liabilities</i> | 127,734 | 43,824 | 171,558 |
| <i>Non-current Liabilities:</i> | | | |
| Revenue bonds payable | <u>1,250,000</u> | <u>190,000</u> | <u>1,440,000</u> |
| <i>Total Non-current Liabilities</i> | 1,250,000 | 190,000 | 1,440,000 |
| TOTAL LIABILITIES | 1,377,734 | 233,824 | 1,611,558 |
| <u>FUND EQUITY</u> | | | |
| Retained Earnings | <u>1,484,678</u> | <u>883,748</u> | <u>2,368,426</u> |
| TOTAL FUND EQUITY | 1,484,678 | 883,748 | 2,368,426 |
| TOTAL LIABILITIES AND FUND EQUITY | <u>\$ 2,862,412</u> | <u>\$ 1,117,572</u> | <u>\$ 3,979,984</u> |

The notes to the financial statements are an integral part of this report.

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| BATES TOWNSHIP |
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COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN RETAINED EARNINGS - ALL ENTERPRISE FUND TYPES

FISCAL YEAR ENDED MARCH 31, 2006

| | <u>WATER FUND</u> | <u>SEWER FUND</u> | <u>TOTALS</u> |
|---------------------------------------|----------------------------|--------------------------|----------------------------|
| <u>OPERATING REVENUES</u> | | | |
| Charges for Services | \$ 190,156 | \$ 84,702 | \$ 274,858 |
| Miscellaneous Revenue | 600 | 810 | 1,410 |
| TOTAL OPERATING REVENUE | \$ 190,756 | \$ 85,512 | \$ 276,268 |
| <u>OPERATING EXPENSES</u> | | | |
| Personal Services | \$ 35,908 | \$ 34,606 | \$ 70,514 |
| Administrative and Clerical | 4,943 | 2,636 | 7,579 |
| Fringe Benefits | 2,889 | 1,295 | 4,184 |
| Pump House | 30,086 | - | 30,086 |
| Professional Fees/Contract Labor | 3,565 | - | 3,565 |
| Equipment Repairs and Maintenance | 6,977 | - | 6,977 |
| Water Lines | 1,668 | - | 1,668 |
| Water Purchases | 12,172 | - | 12,172 |
| Lift Station/Equipment | - | 8,895 | 8,895 |
| Depreciation | 152,392 | 69,542 | 221,934 |
| TOTAL OPERATING EXPENSES | \$ 250,600 | \$ 116,974 | \$ 367,574 |
| OPERATING PROFIT (LOSS) | (59,844) | (31,462) | (91,306) |
| NON-OPERATING INCOME | | | |
| Interest Income | 4,203 | 3,916 | 8,119 |
| NON-OPERATING EXPENSES | | | |
| Interest Expense | (67,856) | (11,222) | (79,078) |
| NET INCOME (LOSS) | (123,497) | (38,768) | (162,265) |
| RETAINED EARNINGS, BEGINNING OF YEAR | 1,608,175 | 922,516 | 2,530,691 |
| RETAINED EARNINGS, END OF YEAR | <u>\$ 1,484,678</u> | <u>\$ 883,748</u> | <u>\$ 2,368,426</u> |

The notes to the financial statements are an integral part of this report.

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| BATES TOWNSHIP |
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BALANCE SHEET - GENERAL FUND*MARCH 31, 2006***ASSETS**

| | | |
|----------------------|-----------|-----------------------|
| Cash and Deposits: | | |
| Unrestricted | \$ | 96,422 |
| Receivables: | | |
| Taxes | | 10,268 |
| Accounts | | - |
| Due From Other Funds | | <u>97,258</u> |
| TOTAL ASSETS | \$ | <u>203,948</u> |

LIABILITIES AND FUND EQUITY**LIABILITIES**

| | | |
|--------------------------|-----------|--------------|
| Deposits | | 30 |
| Accrued Taxes | | 2,417 |
| Due To Other Funds | | <u>67</u> |
| TOTAL LIABILITIES | \$ | 2,514 |

FUND EQUITY

| | | |
|--|-----------|-----------------------|
| Fund Balance | | <u>201,434</u> |
| TOTAL FUND EQUITY | | 201,434 |
| TOTAL LIABILITIES AND FUND EQUITY | \$ | <u>203,948</u> |

The notes to the financial statements are an integral part of this report.

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| BATES TOWNSHIP |
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**STATEMENT OF REVENUES – GENERAL FUND
ACTUAL AND BUDGET**

FISCAL YEAR ENDED MARCH 31, 2006

| | <u>ACTUAL</u> | <u>BUDGET</u> | <u>VARIANCE FAVORABLE (UNFAVORABLE)</u> |
|-------------------------------------|--------------------------|--------------------------|---|
| <u>TAXES</u> | | | |
| Current Tax Levy | \$ 101,486 | \$ 102,000 | \$ (514) |
| Administrative Fees | 15,468 | 11,000 | 4,468 |
| Interest and Penalties on Taxes | 1,856 | 3,000 | (1,144) |
| Commercial Forest/Swamp Tax | <u>11,297</u> | <u>12,000</u> | <u>(703)</u> |
| TOTAL TAXES | 130,107 | 128,000 | 2,107 |
| <u>STATE-SHARED RECEIPTS</u> | | | |
| Sales Tax | <u>73,529</u> | <u>60,000</u> | <u>13,529</u> |
| TOTAL STATE-SHARED RECEIPTS | 73,529 | 60,000 | 13,529 |
| <u>CHARGES FOR SERVICES</u> | | | |
| Cemetery | 2,500 | 3,000 | (500) |
| Parks and Recreation | 3,775 | 3,000 | 775 |
| Tax Collection | <u>6,253</u> | <u>6,000</u> | <u>253</u> |
| TOTAL CHARGES FOR SERVICES | 12,528 | 12,000 | 528 |
| <u>INTEREST AND RENTAL</u> | | | |
| Interest | 2,611 | 1,100 | 1,511 |
| Hall Rental | <u>1,600</u> | <u>3,000</u> | <u>(1,400)</u> |
| TOTAL INTEREST AND RENTAL | 4,211 | 4,100 | 111 |
| <u>OTHER REVENUE</u> | | | |
| Zoning Permits/Fees | 850 | 2,500 | (1,650) |
| Timber Sales | 11,001 | 100 | 10,901 |
| Miscellaneous | <u>7,715</u> | <u>7,600</u> | <u>115</u> |
| TOTAL OTHER REVENUE | 19,566 | 10,200 | 9,366 |
| TOTAL REVENUES | <u>\$ 239,941</u> | <u>\$ 214,300</u> | <u>\$ 25,641</u> |

The notes to the financial statements are an integral part of this report.

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| BATES TOWNSHIP |
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**STATEMENT OF EXPENDITURES – GENERAL FUND
ACTUAL AND BUDGET**

FISCAL YEAR ENDED MARCH 31, 2006

| | <u>ACTUAL</u> | <u>BUDGET</u> | <u>VARIANCE FAVORABLE (UNFAVORABLE)</u> |
|----------------------------------|------------------|------------------|---|
| <u>LEGISLATIVE</u> | | | |
| <u>Township Board</u> | | | |
| Salaries | \$ 2,166 | \$ - | \$ - |
| Fringe Benefits | 166 | | |
| Office Supplies | 195 | | |
| Legal Services | 4,410 | | |
| Accounting and Audit | 4,888 | | |
| Membership Dues/Education | 1,294 | | |
| Printing/Publishing | 290 | | |
| Mileage | 19 | | |
| Miscellaneous | 62 | | |
| | <hr/> | <hr/> | <hr/> |
| TOTAL LEGISLATIVE | \$ 13,490 | \$ 11,836 | \$ (1,654) |
| <u>GENERAL GOVERNMENT</u> | | | |
| <u>Supervisor</u> | | | |
| Salaries | 9468 | - | - |
| Fringe Benefits | 724 | | |
| Printing/Publishing | 45 | | |
| | <hr/> | <hr/> | <hr/> |
| Total Supervisor | 10,237 | 11,000 | 763 |
| <u>Assessor</u> | | | |
| Professional Fees | 11012 | - | - |
| Fringe Benefits | 842 | | |
| Supplies | 727 | | |
| Professional Fees | 1291 | | |
| Membership Dues | 150 | | |
| Mileage | 172 | | |
| Miscellaneous | 24 | | |
| | <hr/> | <hr/> | <hr/> |
| Total Assessor | 14,218 | 15,000 | 782 |
| <u>Elections</u> | | | |
| Salaries | 406 | - | - |
| Supplies | 327 | | |
| Miscellaneous | 22 | | |
| | <hr/> | <hr/> | <hr/> |
| Total Elections | \$ 755 | \$ 1,500 | \$ 745 |

The notes to the financial statements are an integral part of this report.

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| BATES TOWNSHIP |
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STATEMENT OF EXPENDITURES - GENERAL FUND
ACTUAL AND BUDGET
(CONTINUED)
FISCAL YEAR ENDED MARCH 31, 2006

| | <u>ACTUAL</u> | <u>BUDGET</u> | <u>VARIANCE FAVORABLE (UNFAVORABLE)</u> |
|----------------------------------|-----------------|-----------------|---|
| <u>GENERAL GOVERNMENT</u> | | | |
| <u>Clerk</u> | | | |
| Salaries | \$ 12,308 | \$ - | \$ - |
| Fringe Benefits | 942 | | |
| Office Supplies | 598 | | |
| Supplies | 124 | | |
| Computer | 1,879 | | |
| Mileage | 11 | | |
| Miscellaneous | 363 | | |
| | <hr/> | <hr/> | <hr/> |
| Total Clerk | 16,225 | 13,439 | (2,786) |
| <u>Treasurer</u> | | | |
| Salaries | 15,039 | - | - |
| Fringe Benefits | 1,150 | | |
| Office Supplies | 1,367 | | |
| Computer | 2,434 | | |
| Tax Roll | 3,049 | | |
| Membership Dues/Education | 75 | | |
| Mileage | 77 | | |
| | <hr/> | <hr/> | <hr/> |
| Total Treasurer | 23,191 | 22,057 | (1,134) |
| <u>Board of Review</u> | | | |
| Contracted Services | 1,013 | - | - |
| Printing/Publishing | 140 | | |
| Membership/Dues | 495 | | |
| Mileage/Travel | 128 | | |
| Miscellaneous | | | |
| | <hr/> | <hr/> | <hr/> |
| Total Board of Review | 1,776 | 1,500 | (276) |
| <u>Zoning</u> | | | |
| Salaries | 2400 | - | - |
| Fringe Benefits | 184 | | |
| Meetings | 420 | | |
| Office Supplies | 15 | | |
| Printing/Publishing | 80 | | |
| | <hr/> | <hr/> | <hr/> |
| Total Zoning | <u>\$ 3,099</u> | <u>\$ 4,000</u> | <u>\$ 901</u> |

The notes to the financial statements are an integral part of this report.

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| BATES TOWNSHIP |
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**STATEMENT OF EXPENDITURES - GENERAL FUND
ACTUAL AND BUDGET
(CONTINUED)**

FISCAL YEAR ENDED MARCH 31, 2006

| | <u>ACTUAL</u> | <u>BUDGET</u> | <u>VARIANCE FAVORABLE (UNFAVORABLE)</u> |
|--|------------------|------------------|---|
| <u>Cemetery</u> | | | |
| Salaries | \$ 2,900 | \$ - | \$ - |
| Fringe Benefits | 7,746 | | |
| Supplies | 517 | | |
| Contracted Services | 217 | | |
| Printing/Publishing | 20 | | |
| Maintenance | 324 | | |
| | <hr/> | <hr/> | <hr/> |
| Total Cemetery | 11,724 | 9,563 | (2,161) |
| TOTAL GENERAL GOVERNMENT | \$ 81,225 | \$ 78,059 | \$ (3,166) |
| <u>TOWNSHIP PROPERTY</u> | | | |
| <u>Township Hall</u> | | | |
| Insurance | 22949 | - | - |
| Utilities | 5003 | | |
| Telephone | 2583 | | |
| Water Purchases | 652 | | |
| | <hr/> | <hr/> | <hr/> |
| Total Township Hall | 31,187 | 26,428 | (4,759) |
| TOTAL TOWNSHIP PROPERTY | \$ 31,187 | \$ 26,428 | \$ (4,759) |
| <u>DEPARTMENT OF PUBLIC WORKS</u> | | | |
| Salaries | 11,979 | - | |
| Fringe Benefits | 31,993 | | |
| Supplies | 2,050 | | |
| Professional Fees | 6,802 | | |
| Gas, Oil and Fuel | 2,654 | | |
| Repair and Maintenance | 4,569 | | |
| Street Lighting | 2,940 | | |
| Miscellaneous | 3,129 | | |
| | <hr/> | <hr/> | <hr/> |
| TOTAL DEPARTMENT OF PUBLIC WORKS | \$ 66,116 | \$ 49,728 | \$ (16,388) |
| <u>PUBLIC SAFETY</u> | | | |
| Fire Protection | 19,000 | 19,000 | - |
| | <hr/> | <hr/> | <hr/> |
| TOTAL PUBLIC SAFETY | \$ 19,000 | \$ 19,000 | \$ - |

The notes to the financial statements are an integral part of this report.

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| BATES TOWNSHIP |
|-----------------------|

**STATEMENT OF EXPENDITURES - GENERAL FUND
ACTUAL AND BUDGET
(CONTINUED)**

FISCAL YEAR ENDED MARCH 31, 2006

| | <u>ACTUAL</u> | <u>BUDGET</u> | <u>VARIANCE FAVORABLE (UNFAVORABLE)</u> |
|---------------------------------------|------------------------------|------------------------------|---|
| <u>RECREATION AND CULTURAL</u> | | | |
| <u>Parks</u> | | | |
| Salaries | \$ 4,477 | \$ - | \$ - |
| Fringe Benefits | 11,958 | | |
| Supplies | 1,048 | | |
| Contracted Services | 2,869 | - | - |
| License and Permits | 365 | | |
| Utilities | 424 | | |
| Telephone | 394 | - | - |
| Repairs and Maintenance | <u>218</u> | <u> </u> | <u> </u> |
| TOTAL RECREATION AND CULTURAL | \$ 21,753 | \$ 20,131 | \$ (1,622) |
| COMMUNITY PROMOTION | 2,346 | 2,046 | (300) |
| CAPITAL OUTLAY | 8,736 | 6,572 | (2,164) |
| TOTAL EXPENDITURES | <u>\$ 243,853</u> | <u>\$ 213,800</u> | <u>\$ (30,053)</u> |

The notes to the financial statements are an integral part of this report.

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| BATES TOWNSHIP |
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BALANCE SHEET - LIQUOR LAW ENFORCEMENT FUND

MARCH 31, 2006

ASSETS

| | |
|------|--------|
| Cash | \$ 652 |
|------|--------|

| | |
|---------------------|---------------|
| TOTAL ASSETS | \$ 652 |
|---------------------|---------------|

FUND EQUITY

| | |
|--------------|--------|
| Fund Balance | \$ 652 |
|--------------|--------|

| | |
|--------------------------|---------------|
| TOTAL FUND EQUITY | \$ 652 |
|--------------------------|---------------|

The notes to the financial statements are an integral part of this report.

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| BATES TOWNSHIP |
|-----------------------|

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND EQUITY - LIQUOR
LAW ENFORCEMENT FUND
ACTUAL AND BUDGET**

FISCAL YEAR ENDED MARCH 31, 2006

| | <u>ACTUAL</u> | <u>BUDGET</u> | <u>VARIANCE FAVORABLE (UNFAVORABLE)</u> |
|---|-------------------|-------------------|---|
| <u>REVENUES</u> | | | |
| State Grants | \$ 385 | \$ - | \$ - |
| TOTAL REVENUES | \$ 385 | \$ 385 | \$ - |
| <u>EXPENDITURES</u> | | | |
| Public Safety : | | | |
| Constable Wages | 300 | - | - |
| Fringe Benefits | 43 | - | - |
| TOTAL EXPENDITURES | \$ 343 | \$ 385 | \$ 42 |
| Excess of Revenues Over (Under) Expenditures | 42 | - | 42 |
| FUND BALANCE, APRIL 1 | 610 | | |
| FUND BALANCE, MARCH 31 | \$ 652 | | |

The notes to the financial statements are an integral part of this report.

| |
|-----------------------|
| BATES TOWNSHIP |
|-----------------------|

BALANCE SHEET - ROAD REPAIR FUND

MARCH 31, 2006

ASSETS

| | |
|------|------------------|
| Cash | <u>\$ 28,445</u> |
|------|------------------|

| | |
|---------------------|-------------------------|
| TOTAL ASSETS | <u>\$ 28,445</u> |
|---------------------|-------------------------|

FUND EQUITY

| | |
|--------------|------------------|
| Fund Balance | <u>\$ 28,445</u> |
|--------------|------------------|

| | |
|--------------------------|-------------------------|
| TOTAL FUND EQUITY | <u>\$ 28,445</u> |
|--------------------------|-------------------------|

The notes to the financial statements are an integral part of this report.

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| BATES TOWNSHIP |
|-----------------------|

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND EQUITY - ROAD
REPAIR FUND
ACTUAL AND BUDGET**

FISCAL YEAR ENDED MARCH 31, 2006

| | <u>ACTUAL</u> | <u>BUDGET</u> | VARIANCE FAVORABLE (UNFAVORABLE) |
|---|------------------------------------|------------------|--|
| <u>REVENUES</u> | | | |
| Property Taxes | \$ 32,218 | \$ 32,700 | \$ (482) |
| Grant-Schools and Roads | <u>4,892</u> | <u>-</u> | <u>4,892</u> |
| TOTAL REVENUES | \$ 37,110 | \$ 32,700 | \$ 4,410 |
| <u>EXPENDITURES</u> | | | |
| Maintenance | <u>30,092</u> | <u>32,700</u> | <u>2,608</u> |
| TOTAL EXPENDITURES | \$ 30,092 | \$ 32,700 | \$ 2,608 |
| Excess of Revenues Over (Under) Expenditures | 7,018 | - | 7,018 |
| FUND BALANCE, APRIL 1 | <u>21,427</u> | | |
| FUND BALANCE, MARCH 31 | <u><u>\$ 28,445</u></u> | | |

The notes to the financial statements are an integral part of this report.

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|-----------------------|
| BATES TOWNSHIP |
|-----------------------|

BALANCE SHEET - WATER FUND*MARCH 31, 2006***ASSETS**

| | |
|-------------------------------|----------------------------|
| Cash and Deposits: | |
| Restricted | \$ 152,974 |
| Unrestricted | 5,827 |
| Accounts Receivable | 35,010 |
| Property, Plant and Equipment | 3,891,128 |
| Accumulated Depreciation | <u>(1,222,527)</u> |
| TOTAL ASSETS | <u>\$ 2,862,412</u> |

LIABILITIES AND FUND EQUITY**LIABILITIES**

| | |
|--------------------------|----------------|
| Accounts Payable | 5400 |
| Deferred Revenue | 18900 |
| Due to Other Funds | 73434 |
| Bonds Payable | <u>1280000</u> |
| TOTAL LIABILITIES | 1377734 |

FUND EQUITY

| | |
|--------------------------|------------------|
| Retained Earnings | <u>1,484,678</u> |
| TOTAL FUND EQUITY | 1,484,678 |

| | |
|--|----------------------------|
| TOTAL LIABILITIES AND FUND EQUITY | <u>\$ 2,862,412</u> |
|--|----------------------------|

The notes to the financial statements are an integral part of this report.

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| BATES TOWNSHIP |
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**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN RETAINED EARNINGS-
WATER FUND**

FISCAL YEAR ENDED MARCH 31, 2006

OPERATING REVENUE

| | |
|--------------------------------|-------------------|
| Charges for Services | \$ 190,156 |
| Miscellaneous Revenue | 600 |
| | <hr/> |
| TOTAL OPERATING REVENUE | \$ 190,756 |

OPERATING EXPENSES

| | |
|-----------------------------------|-------------------|
| Personal Services | 35,908 |
| Administrative and Clerical | 4,943 |
| Fringe Benefits | 2,889 |
| Pump House | 30,086 |
| Professional Fees/Contract Labor | 3,565 |
| Equipment Repairs and Maintenance | 6,977 |
| Water Lines | 1,668 |
| Water Purchases | 12,172 |
| Depreciation | 152,392 |
| | <hr/> |
| TOTAL OPERATING EXPENSES | \$ 250,600 |

| | |
|-------------------------|----------|
| Operating Profit (Loss) | (59,844) |
|-------------------------|----------|

NON-OPERATING INCOME

| | |
|-----------------|-------|
| Interest Income | 4,203 |
|-----------------|-------|

NON-OPERATING EXPENSES

| | |
|------------------|----------|
| Interest Expense | (67,856) |
|------------------|----------|

| | |
|-------------------|-----------|
| Net Income (Loss) | (123,497) |
|-------------------|-----------|

| | |
|----------------------------|-----------------|
| RETAINED EARNINGS, APRIL 1 | <hr/> 1,608,175 |
|----------------------------|-----------------|

| | |
|------------------------------------|-----------------------------------|
| RETAINED EARNINGS, MARCH 31 | <u><u>\$ 1,484,678</u></u> |
|------------------------------------|-----------------------------------|

The notes to the financial statements are an integral part of this report.

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| BATES TOWNSHIP |
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STATEMENT OF CASH FLOWS - WATER FUND

FISCAL YEAR ENDED MARCH 31, 2006

CASH FLOWS FROM (USED BY)

OPERATING ACTIVITIES

| | |
|--|-------------------|
| Net cash received from fees and services | \$ 196,010 |
| Other operating revenues | 600 |
| Cash payments to employees for services | (40,649) |
| Cash payments to goods and services | (59,901) |
| Other operating expenses | <u> </u> |

| | |
|---|------------------|
| NET CASH FROM OPERATING ACTIVITIES | \$ 96,060 |
|---|------------------|

NON CAPITAL AND FINANCING ACTIVITIES

| | |
|---|-------------------|
| Increase (decrease) in due to other funds | 28,605 |
| (Increase) decrease in due from other funds | - |
| Net operating transfers in (out) | <u> </u> |

| | |
|---|---------------|
| NET CASH FROM NON CAPITAL AND FINANCING ACTIVITIES | 28,605 |
|---|---------------|

CAPITAL AND RELATED FINANCING ACTIVITIES

| | |
|--|-------------------|
| Acquisition and construction of capital assets | (20,917) |
| Principal payment on long-term bonds | (25,000) |
| Interest paid on long-term bonds | (67,856) |
| Interest and tax expense | - |
| Proceeds from borrowings | - |
| Contributed capital grants | <u> </u> |

| | |
|--|------------------|
| NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES | (113,773) |
|--|------------------|

INVESTING ACTIVITIES

| | |
|-------------------------|-------------------|
| Interest Income | 4,203 |
| Loss on Investments | - |
| Decrease in Investments | <u> </u> |

| | |
|---|-----------------|
| NET CASH FROM INVESTING ACTIVITIES | \$ 4,203 |
|---|-----------------|

| | |
|--|--------|
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 15,095 |
|--|--------|

| | |
|--|----------------|
| Cash and Cash Equivalents, Beginning of Year | <u>143,706</u> |
|--|----------------|

| | |
|---|-------------------|
| Cash and Cash Equivalents, End of Year | \$ 158,801 |
|---|-------------------|

The notes to the financial statements are an integral part of this report.

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| BATES TOWNSHIP |
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**STATEMENT OF CASH FLOWS - WATER FUND
(CONTINUED)**

FISCAL YEAR ENDED MARCH 31, 2006

**CASH FLOWS FROM OPERATING
ACTIVITIES**

| | |
|--|-------------------------|
| Operating Income | \$ (59,844) |
| Adjustment to reconcile operating income to net cash provided by operating activities: | |
| . Depreciation | 152,392 |
| . Provision for uncollectible accounts | - |
| . Changes in assets and liabilities : | |
| (Increase) Decrease in accounts receivable | 5,854 |
| Increase (Decrease) in accounts payable | (2,342) |
| Increase (Decrease) in deferred revenue | - |
| Increase (Decrease) in customer deposits | - |
| NET CASH FROM OPERATING ACTIVITIES | <u>\$ 96,060</u> |

The notes to the financial statements are an integral part of this report.

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| BATES TOWNSHIP |
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BALANCE SHEET - SEWER FUND*MARCH 31, 2006***ASSETS**

Cash and Deposits :

| | |
|-------------------------------|--------------------|
| Restricted | \$ 91,982 |
| Unrestricted | 38,304 |
| Accounts Receivable | 7,159 |
| Property, Plant and Equipment | 2,701,446 |
| Accumulated Depreciation | <u>(1,721,319)</u> |

| | |
|---------------------|-------------------------------|
| TOTAL ASSETS | <u>\$ 1,117,572</u> |
|---------------------|-------------------------------|

LIABILITIES AND FUND EQUITY**LIABILITIES**

| | |
|--------------------|----------------|
| Due to Other Funds | 23,824 |
| Bonds Payable | <u>210,000</u> |

| | |
|--------------------------|----------------|
| TOTAL LIABILITIES | 233,824 |
|--------------------------|----------------|

FUND EQUITY

| | |
|-------------------|----------------|
| Retained Earnings | <u>883,748</u> |
|-------------------|----------------|

| | |
|--------------------------|-----------------------|
| TOTAL FUND EQUITY | <u>883,748</u> |
|--------------------------|-----------------------|

| | |
|--|-------------------------------|
| TOTAL LIABILITIES AND FUND EQUITY | <u>\$ 1,117,572</u> |
|--|-------------------------------|

The notes to the financial statements are an integral part of this report.

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| BATES TOWNSHIP |
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**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN RETAINED EARNINGS -
SEWER FUND**

FISCAL YEAR ENDED MARCH 31, 2006

OPERATING REVENUE

| | |
|--------------------------------|------------------|
| Charges for Services | \$ 84,702 |
| Miscellaneous Revenue | 810 |
| | <hr/> |
| TOTAL OPERATING REVENUE | \$ 85,512 |

OPERATING EXPENSES

| | |
|---------------------------------|-------------------|
| Personal Services | 34,606 |
| Administrative and Clerical | 2,636 |
| Fringe Benefits | 1,295 |
| Lift Station/Equipment | 8,895 |
| Depreciation | 69,542 |
| | <hr/> |
| TOTAL OPERATING EXPENSES | \$ 116,974 |

| | |
|-------------------------|----------|
| Operating Profit (Loss) | (31,462) |
|-------------------------|----------|

NON-OPERATING INCOME

| | |
|-----------------|-------|
| Interest Income | 3,916 |
|-----------------|-------|

NON-OPERATING EXPENSES

| | |
|------------------|----------|
| Interest Expense | (11,222) |
|------------------|----------|

| | |
|-------------------|----------|
| Net Income (Loss) | (38,768) |
|-------------------|----------|

| | |
|----------------------------|---------|
| RETAINED EARNINGS, APRIL 1 | 922,516 |
| | <hr/> |

| | |
|------------------------------------|-------------------|
| RETAINED EARNINGS, MARCH 31 | \$ 883,748 |
| | <hr/> |

The notes to the financial statements are an integral part of this report.

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| BATES TOWNSHIP |
|-----------------------|

STATEMENT OF CASH FLOWS - SEWER FUND

FISCAL YEAR ENDED MARCH 31, 2006

CASH FLOWS FROM (USED BY)

OPERATING ACTIVITIES

| | |
|--|-----------|
| Net cash received from fees and services | \$ 87,037 |
| Other operating revenues | 810 |
| Cash payments to employees for services | (18,218) |
| Cash payments to goods and services | (29,214) |
| Other operating expenses | - |
| | - |

| | |
|---|------------------|
| NET CASH FROM OPERATING ACTIVITIES | \$ 40,415 |
|---|------------------|

NON CAPITAL AND FINANCING ACTIVITIES

| | |
|---|---------|
| Increase (decrease) in due to other funds | (5,026) |
| (Increase) decrease in due from other funds | - |
| Net operating transfers in (out) | - |
| | - |

| | |
|---|-------------------|
| NET CASH FROM NON CAPITAL AND FINANCING ACTIVITIES | \$ (5,026) |
|---|-------------------|

CAPITAL AND RELATED FINANCING ACTIVITIES

| | |
|--|----------|
| Acquisition and construction of capital assets | (991) |
| Principal payment on long-term bonds | (61,000) |
| Interest paid on long-term bonds | (14,590) |
| Interest and tax expense | - |
| Proceeds from borrowings | - |
| Contributed capital grants | - |
| | - |

| | |
|--|--------------------|
| NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES | \$ (76,581) |
|--|--------------------|

INVESTING ACTIVITIES

| | |
|-----------------|-------|
| Interest Income | 3,916 |
| | 3,916 |

| | |
|---|-----------------|
| NET CASH FROM INVESTING ACTIVITIES | \$ 3,916 |
|---|-----------------|

| | |
|--|----------|
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | (37,276) |
|--|----------|

| | |
|--|---------|
| Cash and Cash Equivalents, Beginning of Year | 167,562 |
| | 167,562 |

| | |
|---|-------------------|
| Cash and Cash Equivalents, End of Year | \$ 130,286 |
| | 130,286 |

The notes to the financial statements are an integral part of this report.

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| BATES TOWNSHIP |
|-----------------------|

**STATEMENT OF CASH FLOWS - SEWER FUND
(CONTINUED)**

FISCAL YEAR ENDED MARCH 31, 2006

**CASH FLOWS FROM OPERATING
ACTIVITIES**

| | |
|--|------------------|
| Operating Income | \$ (31,462) |
| Adjustment to reconcile operating income to net cash provided by operating activities: | |
| . Depreciation | 69,542 |
| . Provision for uncollectible accounts | - |
| . Changes in assets and liabilities : | |
| (Increase) Decrease in accounts receivable | 2,335 |
| Increase (Decrease) in accounts payable | - |
| Increase (Decrease) in deferred revenue | - |
| Increase (Decrease) in customer deposits | - |
| NET CASH FROM OPERATING ACTIVITIES | \$ 40,415 |

The notes to the financial statements are an integral part of this report.

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| BATES TOWNSHIP |
|-----------------------|

STATEMENT OF CHANGES IN ASSETS AND LIABILITIES - TRUST AND AGENCY FUNDS

FISCAL YEAR ENDED MARCH 31, 2006

| | <u>Balance</u> <u>3/31/2005</u> | <u>Additions</u> | <u>Deductions</u> | <u>Balance</u> <u>3/31/2006</u> |
|---------------------------|------------------------------------|---------------------------|---------------------------|------------------------------------|
| <u>ASSETS</u> | | | | |
| Cash | \$ 27,660 | \$1,217,787 | \$1,222,508 | \$ 22,939 |
| TOTAL ASSETS | <u>\$ 27,660</u> | <u>\$1,217,787</u> | <u>\$1,222,508</u> | <u>\$ 22,939</u> |
| <u>LIABILITIES</u> | | | | |
| Due to Other Funds | 4,507 | 162,255 | 166,829 | (67) |
| Due to State | 16,022 | 16,632 | 16,590 | 16,064 |
| Due to Schools | 1,289 | 367,575 | 367,662 | 1,202 |
| Due to ISD | 70 | 66,558 | 66,557 | 71 |
| Due to County | 5,274 | 559,725 | 559,933 | 5,066 |
| Due to Library | 498 | 44,256 | 44,151 | 603 |
| Due to Other | - | 786 | 786 | - |
| TOTAL LIABILITIES | <u>\$ 27,660</u> | <u>\$1,217,787</u> | <u>\$1,222,508</u> | <u>\$ 22,939</u> |

The notes to the financial statements are an integral part of this report.

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

DS Rostagno, CPA, P.C.

*101 West Maple Street, Iron River, MI 49935
Tel (906) 265-1040 Fax (906) 265-1042*

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Trustees
Bates Township
Iron River, Michigan 49935

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information as of and for the year ended March 31, 2006, which collectively comprise **Bates Township's** financial statements, and have issued our report thereon dated June 21, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered **Bates Township's** internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no such matters involving the internal control over financial reporting and its operations that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether **Bates Township's** financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts.

Compliance and Other Matters (Continued)

However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

However, we noted certain matters involving the internal control structure and its operations that we have reported to the management of **Bates Township**, Iron River, Michigan in a separate letter dated June 21, 2006.

This report is intended solely for the information and use of the audit committee, management, the Board, and federal awarding agencies and pass-through entities, and it is not intended to be, and should not be, used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "Dianne S. Rostagno". The signature is fluid and cursive, with the first name "Dianne" being more prominent.

Dianne S. Rostagno
DS ROSTAGNO, CPA, P.C.

June 21, 2006

DS Rostagno, CPA, P.C.

***101 West Maple Street, Iron River, MI 49935
Tel (906) 265-1040 Fax (906) 265-1042***

Members of the Township Board
Bates Township
3070 East US-2
Iron River, Michigan 49935

In planning and performing the audit of the financial statements of **Bates Township**, we considered the Township's internal control structure to plan the auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit, we noted certain matters involving the internal control structure and other operational matters that are presented for your consideration. This letter does not affect our report dated June 21, 2006 on the financial statements of **Bates Township**. We will review the status of these comments during our next audit engagement. Our comments and recommendations, which have been discussed with appropriate township officials, are intended to improve the internal control structure or result in other operating efficiencies. We will be pleased to discuss these comments in further detail at your convenience or to assist you in implementing the recommendations. Our comments are summarized as follows:

BUDGETS

***** Problem***

Public Act 621 of 1978, Section 17 (1), as amended, provides that a local unit shall not incur expenditures in excess of amounts appropriated.

During the fiscal year ended March 31, 2006, the Township had several expenditures in excess of the amounts appropriated.

Recommendation

Periodically, budgeted amounts should be compared to actual expenditures and the budget amended accordingly.

CASH RESERVES

***** Problem***

Bond and Interest Redemption Fund

The bonding ordinance for the Water Supply System revenue bond requires certain cash balances be reserved for the bond payment. Each quarter of the fiscal year, revenues must be transferred to the Bond and Interest Redemption Fund before any expenditures or transfers.

BATES TOWNSHIP

Page 2

CASH RESERVES (Continued)

**** Problem**

Bond and Interest Redemption Fund (Continued)

In conjunction with the prior audit, it was noted that sufficient amounts had not been set aside to pay the principal and interest payments accruing on the bonds.

Recommendation

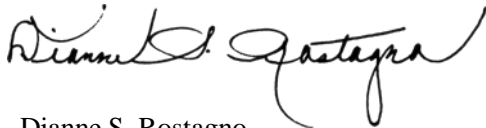
It was recommended that sufficient monies be transferred into the reserve accounts to bring the Township into compliance with the bonding ordinance and that each quarter sufficient amounts be transferred to the Bond and Interest Redemption Fund to pay for the principal and interest payments.

Resolution

This has been satisfactorily resolved.

We wish to express our appreciation to the Township officials for their assistance during our audit engagement.

This report is intended solely for the information and use of the Township Board.

A handwritten signature in black ink, appearing to read "Dianne S. Rostagno". The signature is fluid and cursive, with the last name being the most prominent part.

Dianne S. Rostagno
DS ROSTAGNO CPA, P.C.

June 21, 2006

